2016 ANNUAL REPORT

Part of the Farm Credit System

FARM CREDIT 100
ESTABLISHED 1916

Table of Contents

Report of Management 2

Report of Audit Committee 3

Five-Year Summary of Selected Consolidated Financial Data 4

Management's Discussion and Analysis of Financial Condition

and Results of Operations 6

Report of Independent Auditors. 13

Consolidated Financial Statements...14

Notes to Consolidated Financial Statements. 19

Disclosure Information and Index 49

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. 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 also conduct a review of internal controls to the extent necessary to comply with auditing standards generally accepted in the United States of America. The association is also examined by the Farm Credit Administration.

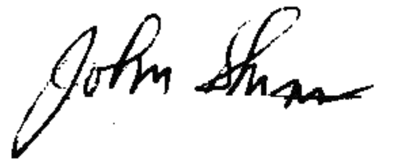
The board of directors has overall responsibility for the association's systems of internal control and financial reporting. The board consults regularly with management and reviews the results of the audits and examinations referred to previously.

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

Al Conner, Interim Chief Executive Officer
March 15, 2017

Terry Milligan, Chairman, Board of Directors
March 15, 2017

Daryl D. Belt, Chief Financial Officer
March 15, 2017



John Shinn, CPA, Chairman, Audit Committee
March 15, 2017

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of the entire board of directors of Legacy Ag Credit, ACA. In 2016, 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 2016.

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 these processes.

In this context, the committee reviewed and discussed Legacy Ag Credit, ACA's audited consolidated financial statements for the year ended December 31, 2016 (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, 2016.

Audit Committee Members

John Shinn, CPA, Chairman
Cody Newman, Vice Chairman
A.G. Sandifeer
Paul Nicklas
Ron Gabriel
Terry Milligan

March 15, 2017

LEGACY AG CREDIT, ACA

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

	2016	2015	2014	2013	2012
Balance Sheet Data					
Assets					
Cash	**$ 122**	$ 105	$ 97	$ 84	$ 84
Loans	**238,026**	231,972	228,889	216,168	212,343
Less: allowance for loan losses	**2,081**	2,358	3,026	3,299	3,269
Net loans	**235,945**	229,614	225,863	212,869	209,074
Investment in and receivable from the Farm Credit Bank of Texas	**3,819**	3,588	3,677	4,236	4,188
Other property owned, net	**222**	174	296	787	3,957
Other assets	**1,935**	1,734	1,990	1,877	2,026
Total assets	**$ 242,043**	$ 235,215	$ 231,923	$ 219,853	$ 219,329
Liabilities					
Obligations with maturities of one year or less	**$ 1,439**	$ 1,285	$ 1,808	$ 2,125	$ 919
Obligations with maturities greater than one year	**184,010**	178,965	178,025	169,534	173,302
Total liabilities	**185,449**	180,250	179,833	171,659	174,221
Members' Equity					
Capital stock and participation certificates	**1,112**	1,101	1,080	1,022	998
Unallocated retained earnings	**55,405**	53,771	50,857	46,935	44,020
Accumulated other comprehensive income (loss)	**77**	93	153	237	90
Total members' equity	**56,594**	54,965	52,090	48,194	45,108
Total liabilities and members' equity	**$ 242,043**	$ 235,215	$ 231,923	$ 219,853	$ 219,329
Statement of Income Data					
Net interest income	**$ 7,526**	$ 7,718	$ 7,816	$ 7,784	$ 7,317
(Provision for loan losses) or loan loss reversal	**272**	701	171	(765)	713
Income from the Farm Credit Bank of Texas	**850**	813	838	826	850
Other noninterest income	**280**	193	1,407	521	646
Noninterest expense	**(5,044)**	(4,911)	(5,060)	(4,451)	(5,400)
Net income (loss)	**$ 3,884**	$ 4,514	$ 5,172	$ 3,915	$ 4,126
Key Financial Ratios for the Year					
Return on average assets	**1.6%**	1.97%	2.3%	1.8%	1.9%
Return on average members' equity	**7.1%**	8.5%	10.2%	8.3%	9.4%
Net interest income as a percentage of average earning assets	**3.1%**	3.4%	3.5%	3.7%	3.4%
Net charge-offs (recoveries) as a percentage of average loans	**0.002%**	-0.01%	0.05%	0.4%	0.8%

LEGACY AG CREDIT, ACA

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

	2016	2015	2014	2013	2012
Key Financial Ratios at Year End					
Members' equity as a percentage of total assets	**23.4%**	23.4%	22.5%	21.9%	20.6%
Debt as a percentage of members' equity	**327.7%**	327.9%	345.2%	356.2%	386.2%
Allowance for loan losses as a percentage of loans	**0.9%**	1.0%	1.3%	1.5%	1.5%
Permanent capital ratio	**22.8%**	23.0%	21.4%	20.9%	19.1%
Core surplus ratio	**22.4%**	22.5%	20.9%	20.4%	18.7%
Total surplus ratio	**22.4%**	22.5%	20.9%	20.4%	18.7%
Net Income Distribution					
Cash patronage distributions	**$ 2,250**	$ 1,600	$ 1,250	$ 1,000	$ 304

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, 2016, 2015 and 2014, 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:

In December 2016, the association received a direct loan patronage of $768,409 from the bank, representing 41 basis points on the average daily balance of the association's direct loan with the bank. During 2016, the association received $74,011 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 $7,873 from the bank, representing 75 basis points on the association's average balance of participations in the bank's patronage pool program.

As previously communicated by a letter to stockholders dated November 22, 2016, the merger with Texas Farm Credit Services was terminated by a vote of the Legacy Ag Credit board at the November 2016 board meeting. See Terminated Merger Discussion section below for more information.

On December 1, 2016, the CEO's (Joseph Crouch) resignation was accepted by the board effective December 31, 2016 and on December 1, 2016 the CCO (Al Conner) was named Interim CEO by the board.

Effective January 10, 2017 the association was placed under Special Supervision by the Farm Credit Administration (FCA) related to the manner in which the decision was made to terminate the merger with Texas Farm Credit Services. The FCA also established a number of supervisory requirements including: (1) the engagement of a board consultant approved by the FCA, and (2) FCA notification prior to any material board decisions, or any actions related to the composition and structure of the board, bylaw changes, or association management.

In response to the supervisory requirements the board has engaged a consultant with many years of direct Farm Credit related experience who will also serve as an independent administrative resource for the association director nominating committee. The board has also added an additional outside director who brings many years of Farm Credit experience to the association. A search for a CEO is in process. See Terminated Merger Discussion below for more information.

In January 2017, the board of directors approved a patronage payment related to 2016 earnings of $2,400,000. The patronage will be paid in April 2017.

Terminated Merger Discussion:

The board of Legacy Ag Credit voted 4 to 3 in a split decision to enter into a Letter of Intent to merge with Texas Farm Credit in August 2016. In October of 2016, the board adopted a formal Merger Agreement related to the proposed merger with the same vote split. The deciding vote in both cases was cast by the appointed outside director, who, during the board's reorganization meeting in June 2016, was not reseated. During this meeting, the vote to reseat this director was also split 3 to 3. The outside director did remain seated, per Legacy's association bylaws, but the bylaws also required that a "good faith" search be commenced by the board to locate his replacement. The board was divided as to how the future of Legacy should be directed, and as with any key strategic decision, there were positive attributes for both outcomes.

Those voting for the merger felt the combined association would benefit as follows:

- Diversification of risk in the loan portfolio both geographically and by source of repayment.
- Ability to spread increasing administrative costs across a larger portfolio.
- Ability of a larger financial institution to offer a wider array of financial products and services.
- Opportunity to attract and retain key management personnel.
- Ability for a larger institution to comply with increased regulatory and internal control requirements.
- The merger documents established the potential for approximately $13 million in allocated equities to be distributed back to the Legacy stockholders. The merger documents, however, specifically stated that any decision to pay patronage or retire allocated equities would be at the merged association's board's complete discretion.

Those voting against the merger felt the association on a standalone basis would benefit as follows:

- Maintaining the local identity with localized management for the stockholder base.
- The association staff, if properly motivated, would actively pursue new business opportunities and effectively leverage the Association's capital to provide larger returns to the stockholders.
- The board had been encouraged by its ability to pay a substantial cash patronage in recent years.
- Legacy's strong capital base and attractive market place should enhance its ability to continue to pay reasonable patronage returns to stockholders and recruit top management talent to run the organization.
- In addition, Legacy will be able to garner certain knowledge and financial products from the Farm Credit Bank of Texas that can be effectively delivered with a renewed management team.

In October of 2016, Legacy lost long-term board member Jerry Cordell with his passing. Mr. Cordell cast his vote in support for the decision to merge prior to his death. Due to his passing, for the association to operate with a full board, the board needed to reseat his board position. The board also had the duty to continue the search for a replacement outside director. In the months preceding his passing, Legacy's board had created a search committee to find outside director candidates. Qualified candidates were located that could serve in this capacity. At the November 2016 board meeting, two candidates for the outside director position were brought before the board for a vote. The board voted 3 to 2 to seat Mr. John Shinn to the outside director position. A motion at the November meeting was brought before the board to rescind the Agreement to merge. This vote passed in a 3 to 2 vote. Mr. Shinn chose to abstain from voting as he was new to the board.

Legacy Ag Credit is regulated by the Farm Credit Administration (FCA). FCA reviewed the facts of what transpired and concluded there were weaknesses within the board governance and decision-making processes. FCA did not voice an opinion over the intent to merge, but had significant concerns about the decision process to rescind the merger. It was clear the board was not aligned in its strategic vision for the association. Based on FCA's concerns, a Supervisory Letter was issued which required the board to take immediate corrective actions. The association was required to hire a board consultant and provide regular reports of the board's activities to the FCA. The board has to date complied with all requirements of the Supervisory Letter.

The Farm Credit Bank of Texas provides funding for Legacy Ag Credit, and thus has a secondary role of oversight due to this commercial lending relationship. As FCBT evaluated the situation within Legacy's board, a strong recommendation was made to appoint a second outside director with substantial Farm Credit experience. It was felt this experience could guide the existing board in working through the fractionalized view for the association's future, and provide unbiased input for the decisions the board would need to make to move forward. Legacy's board appointed Mr. Bill Melton, a previous CEO within the Farm Credit System with over four decades of experience, to be its second outside director effective in the February board meeting and appointed Mr. Brandon Sides, an association shareholder, to fill Mr. Cordell's unexpired term at the same time.

The following are disclosure items, events and expenses related to the board of directors' decision to rescind the agreement to merge:

- Merger expenses totaling approximately $115,000 were incurred to complete appropriate credit quality testing as part of normal and customary due diligence, pay attorneys, hold special board meetings specific to merger activity, and other items such as accounting and audit.
- On December 1, 2016, shortly after the agreement to merge was rescinded by the board of directors, the CEO resigned effective December 31, 2016. The former CEO did not disclose the reason in his resignation letter dated December 1, 2016.
- Mr. Lynn Dantzler, the recently hired outside board consultant, will facilitate the search for qualified candidates for the CEO position with a target date of July 1, 2017 to fill the position. Mr. Lynn Dantzler is working with the assistance of the Farm Credit Bank of Texas to accomplish this task.

Both the board and management are committed to continuing the administration of the association in a safe and sound manner, compliant with all FCA regulations. The board will allocate ample time at the association's 2017 Annual Meeting to respond to stockholders' questions incident to the board of directors' decision to rescind the merger agreement with Texas Farm Credit. Because of the timing of the Supervisory Letter, the association's 2017 Annual Meeting has been deferred and is tentatively scheduled for late in the second quarter or early in the third quarter.

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 $238,025,851, $231,971,684 and $228,889,211 as of December 31, 2016, 2015 and 2014, 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 2016, 2015 and 2014, the association was participating in loans with other lenders. As of December 31, 2016, 2015 and 2014, these participations totaled $36,304,350, $33,622,714 and $25,181,834, or 15.3 percent, 14.5 percent and 11.0 percent of loans, respectively. The association had no participations purchased from entities outside the district. The association has also sold participations of $1,014,457, $1,084,398 and $1,146,412 as of December 31, 2016, 2015 and 2014, respectively.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned, net.

The following table illustrates the association's components and trends of high-risk assets serviced for the prior three years as of December 31:

	2016		2015		2014	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual	**$ 3,060,977**	**46.8%**	$ 4,834,434	57.1%	$ 2,791,617	43.8%
Formally restructured	**3,258,080**	**49.8%**	3,450,056	40.8%	3,289,626	51.6%
Other property owned, net	**221,724**	**3.4%**	173,976	2.1%	295,631	4.6%
Total	**$ 6,540,781**	**100.0%**	$ 8,458,466	100.0%	$ 6,376,874	100.0%

At December 31, 2016, 2015 and 2014, loans that were considered impaired were $6,319,057, $8,284,490 and $6,081,243, representing 2.7 percent, 3.6 percent and 2.7 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

Other property owned consisted of one property at December 31, 2016. This property consists of a house with poultry houses and land. The net carrying value of the property is equivalent to its fair value of $221,724. Net operating expenses incurred on other property owned were $46,255. During 2016, there were two sales of other property owned that resulted in a net gain of $50,975.

During 2015, the association wrote-off the remaining balance of one acquired property. The property consisted of inventory which was deemed to be uncollectible. This write-off resulted in a loss of $44,765.

During 2014, there was one sale of other property owned that resulted in a gain of $1,286,079.

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:

	2016	2015	2014
Allowance for loan losses	**$ 2,080,948**	$ 2,357,719	$ 3,026,371
Allowance for loan losses to total loans	**0.9%**	1.0%	1.3%
Allowance for loan losses to nonaccrual loans	**68.0%**	48.8%	108.4%
Allowance for loan losses to impaired loans	**32.9%**	28.5%	49.8%
Net charge-offs to average loans	**0.002%**	-0.01%	0.05%

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 also considers other qualitative factors in determining and supporting the level of allowance for loan losses including but not limited to: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects, borrower repayment capacity, depth of lender staff, and/or past trends, and weather-related influences.

Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of $2,080,948, $2,357,719 and $3,026,371 at December 31, 2016, 2015 and 2014, 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.

Results of Operations:

The association's net income for the year ended December 31, 2016, was $3,883,973 as compared to $4,514,173 for the year ended December 31, 2015, reflecting a decrease of $630,200, or 14.0 percent. The association's net income for the year ended December 31, 2014 was $5,171,871. Net income decreased $657,698, or 12.7 percent, in 2015 versus 2014.

Net interest income for 2016, 2015 and 2014 was $7,525,977, $7,717,725 and $7,816,285, respectively, reflecting decreases of $191,748, or 2.5 percent, for 2016 versus 2015 and $98,560, or 1.3 percent, for 2015 versus 2014. 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:

	2016		2015		2014	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 239,737,040**	**$ 11,797,840**	$ 225,253,663	$ 11,596,085	$ 223,635,918	$ 11,644,220
Interest-bearing liabilities	**187,427,414**	**4,271,863**	174,297,849	3,878,360	176,245,254	3,827,935
Impact of capital	**$ 52,309,626**		$ 50,955,814		$ 47,390,664	
Net interest income		**$ 7,525,977**		$ 7,717,725		$ 7,816,285

	2016 Average Yield	2015 Average Yield	2014 Average Yield
Yield on loans	**4.92%**	5.15%	5.21%
Cost of interest-bearing liabilities	**2.28%**	2.23%	2.17%
Interest rate spread	**2.64%**	2.92%	3.03%

	2016 vs. 2015			2015 vs. 2014		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income - loans	**$ 745,604**	**$ (543,849)**	**$ 201,755**	$ 84,233	$ (132,368)	$ (48,135)
Interest expense	**292,146**	**101,357**	**393,503**	(42,296)	92,721	50,425
Net interest income	**$ 453,458**	**$ (645,206)**	**$ (191,748)**	$ 126,529	$ (225,089)	$ (98,560)

Interest income for 2016 increased by $201,755, or 1.7 percent, compared to 2015, primarily due to an increase in average loan volume. Interest expense for 2016 increased by $393,503, or 10.1 percent, compared to 2015 primarily due to an increase in average interest bearing liabilities. The interest rate spread decreased by 28 basis points to 2.64 percent in 2016 from 2.92 percent in 2015, primarily due to a decline in the average yield on loans. The interest rate spread decreased by 11 basis points to 2.92 percent in 2015 from 3.03 percent in 2014, primarily because of a decrease in yield on loans as well as an increase in the cost of interest-bearing liabilities.

Noninterest income for 2016 increased by $123,866, or 12.3 percent, compared to 2015, due primarily to an increase in patronage and loan fee income as well as a net gain on sale of other property owned. Noninterest income for 2015 decreased by $1,239,188, or 55.2 percent, compared to 2014, due primarily to the sale of other property owned in 2014.

The reversal of provisions for loan losses decreased by $429,284, or 61.2 percent, compared to 2015, due primarily to a decrease in impaired loan volume.

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 $133,034, or 2.7 percent in 2016 compared to 2015 primarily due to an increase is salaries and employee benefits and insurance fund premiums. The $68,628 increase in insurance fund premiums to the Insurance Fund is due to an increase in the premium rates from 13 basis points in 2015 to 16 basis points for the first half and 18 basis points for the second half of 2016. The decrease in operating expenses in 2015 from 2014 of $149,899, or 3.0 percent, is primarily due to the reduction of provision for other property owned of $160,269. The decrease in operating expenses included an increase of $11,709 in premiums to the Insurance Fund, resulting from an increase in the premium rates from 12 basis points in 2014 to 13 basis points in 2015.

For the year ended December 31, 2016, the association's return on average assets was 1.6 percent, as compared to 1.97 percent and 2.3 percent for the years ended December 31, 2015 and 2014, respectively. For the year ended December 31, 2016, the association's return on average members' equity was 7.1 percent, as compared to 8.5 percent and 10.2 percent for the years ended December 31, 2015 and 2014, respectively.

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

Liquidity and Funding Sources:

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

The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of $183,651,931, $178,621,128 and $177,687,550 as of December 31, 2016, 2015 and 2014, respectively, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 2.28 percent, 2.23 percent and 2.17 percent at December 31, 2016, 2015 and 2014, respectively. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by a general financing agreement. The increase in note payable to the bank and related accrued interest payable since December 31, 2015, is due to an increase in loan volume. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were $53,929,815, $53,035,534 and $51,034,308 at December 31, 2016, 2015 and 2014, respectively. The maximum amount the association may borrow from the bank as of December 31, 2016, was $224,319,605 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2018, unless sooner terminated by the bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the bank 120 days' prior written notice.

The liquidity policy of the association is to manage cash balances, to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued during 2016. As borrower payments are received, they are applied to the association's note payable to the bank.

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

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 $56,594,000, $54,964,957 and $52,090,314 at December 31, 2016, 2015 and 2014, respectively. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The association's permanent capital ratio at December 31, 2016, 2015 and 2014 was 22.8 percent, 23.0 percent and 21.4 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, 2016, 2015 and 2014 was 22.4 percent, 22.5 percent and 20.9 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 3.5 percent. The total surplus ratio measures available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect borrowers' investments in the association. The association's total surplus ratio at December 31, 2016, 2015 and 2014 was 22.4 percent, 22.5 percent and 20.9 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

Regulatory Matters:

Effective January 10, 2017 the association was placed under Special Supervision by the Farm Credit Administration (FCA) related to the manner in which the decision was made to terminate the merger with Texas Farm Credit Services. The FCA also established a number of supervisory requirements including: (1) the engagement of a board consultant approved by the FCA, and (2) FCA notification prior to any material board decisions, or any actions related to the composition and structure of the board, bylaw changes or association management. See Management's Discussion and Analysis on page 6 for further information.

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

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

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

In 2016, 2015 and 2014, the association paid patronage of $2,249,884, $1,600,000 and $1,250,000, respectively. In January 2017, the board of directors approved a $2,400,000 patronage distribution to be paid in April 2017. See Note 9 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

Relationship With the Bank:

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

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

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

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

Summary:

Regardless of the state of the agricultural economy, your association's board of directors and management, as well as the board of directors and management of the bank, have been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this association.

Report of Independent Auditors

To the Board of Directors of 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, 2016, 2015 and 2014, and the related consolidated statements of comprehensive income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

March 15, 2017

PricewaterhouseCoopers LLP, 300 West 6th Street, Suite 1800, Austin, Texas 78701
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LEGACY AG CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	December 31,		
	2016	2015	2014
Assets			
Cash	**$ 121,720**	$ 104,812	$ 96,944
Loans	**238,025,851**	231,971,684	228,889,211
Less: allowance for loan losses	**2,080,948**	2,357,719	3,026,371
Net loans	**235,944,903**	229,613,965	225,862,840
Accrued interest receivable	**1,111,228**	1,107,074	1,275,553
Investment in and receivable from the Farm Credit Bank of Texas:			
Capital stock	**3,738,505**	3,486,430	3,506,090
Other	**80,883**	101,859	170,855
Other property owned, net	**221,724**	173,976	295,631
Premises and equipment	**485,401**	474,752	576,391
Other assets	**338,647**	151,782	138,809
Total assets	**$ 242,043,011**	$ 235,214,650	$ 231,923,113
Liabilities			
Note payable to the Farm Credit Bank of Texas	**$ 183,651,931**	$ 178,621,128	$ 177,687,550
Advance conditional payments	**1,272**	-	-
Accrued interest payable	**357,914**	343,575	337,241
Drafts outstanding	**201,009**	252,089	725,500
Other liabilities	**1,236,885**	1,032,901	1,082,508
Total liabilities	**185,449,011**	180,249,693	179,832,799
Members' Equity			
Capital stock and participation certificates	**1,112,315**	1,100,475	1,080,365
Unallocated retained earnings	**55,405,211**	53,771,122	50,856,949
Accumulated other comprehensive income (loss)	**76,474**	93,360	153,000
Total members' equity	**56,594,000**	54,964,957	52,090,314
Total liabilities and members' equity	**$ 242,043,011**	$ 235,214,650	$ 231,923,113

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,		
	2016	2015	2014
Interest Income			
Loans	**$ 11,797,840**	$ 11,596,085	$ 11,644,220
Interest Expense			
Note payable to the Farm Credit Bank of Texas	**4,271,863**	3,878,358	3,827,916
Advance conditional payments	**-**	2	19
Total interest expense	**4,271,863**	3,878,360	3,827,935
Net interest income	**7,525,977**	7,717,725	7,816,285
Provision for Loan Losses	**(271,836)**	(701,120)	(170,969)
Net interest income after provision for losses	**7,797,813**	8,418,845	7,987,254
Noninterest Income			
Income from the Farm Credit Bank of Texas:			
Patronage income	**850,293**	813,041	837,926
Loan fees	**204,183**	149,893	128,723
Financially related services income	**639**	675	577
Gain on sale of other property owned, net	**50,975**	-	1,256,861
Gain on sale of premises and equipment, net	**-**	19,033	-
Other noninterest income	**23,729**	23,311	21,054
Total noninterest income	**1,129,819**	1,005,953	2,245,141
Noninterest Expenses			
Salaries and employee benefits	**2,974,053**	2,873,152	2,888,265
Directors' expense	**289,062**	217,050	225,859
Purchased services	**416,521**	406,904	422,737
Travel	**182,441**	214,458	253,370
Occupancy and equipment	**257,547**	272,851	251,946
Communications	**120,780**	99,302	82,697
Advertising	**88,227**	97,764	138,442
Public and member relations	**109,056**	133,777	119,759
Supervisory and exam expense	**92,780**	79,289	86,788
Insurance Fund premiums	**323,367**	254,739	243,030
Provision for other property owned	**15,689**	76,890	237,159
Loss on other property owned, net	**30,566**	59,892	-
Other noninterest expense	**143,570**	124,557	110,472
Total noninterest expenses	**5,043,659**	4,910,625	5,060,524
NET INCOME	**3,883,973**	4,514,173	5,171,871
Other comprehensive income:			
Change in postretirement benefit plans	**(16,886)**	(59,640)	(84,475)
COMPREHENSIVE INCOME	**$ 3,867,087**	$ 4,454,533	$ 5,087,396

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, 2013	$ 1,021,690	$ 46,935,078	$ 237,475	$ 48,194,243
Net 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
Comprehensive income	-	4,514,173	(59,640)	4,454,533
Capital stock/participation certificates issued	141,125	-	-	141,125
Capital stock/participation certificates and allocated retained earnings retired	(121,015)	-	-	(121,015)
Patronage paid	-	(1,600,000)	-	(1,600,000)
Balance at December 31, 2015	1,100,475	53,771,122	93,360	54,964,957
Comprehensive income	-	3,883,973	(16,886)	3,867,087
Capital stock/participation certificates issued	129,390	-	-	129,390
Capital stock/participation certificates and allocated retained earnings retired	(117,550)	-	-	(117,550)
Patronage paid	-	(2,249,884)	-	(2,249,884)
Balance at December 31, 2016	**$ 1,112,315**	**$ 55,405,211**	**$ 76,474**	**$ 56,594,000**

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,		
	2016	2015	2014
Cash flows from operating activities:			
Net income	**$ 3,883,973**	$ 4,514,173	$ 5,171,871
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses or (loan loss reversal)	**(271,836)**	(701,120)	(170,969)
Provision for other property owned	**15,689**	76,890	237,159
(Gain) loss on sale of other property owned, net	**(50,975)**	59,892	(1,256,861)
Depreciation	**100,300**	118,563	130,788
Gain on sale of premises and equipment, net	**-**	(19,033)	-
(Increase) decrease in accrued interest receivable	**(4,154)**	168,479	(101,035)
Decrease in other receivables from the Farm Credit Bank of Texas	**20,976**	68,996	666,171
(Increase) in other assets	**(186,865)**	(12,973)	(20,736)
Increase in accrued interest payable	**14,339**	6,334	33,475
Increase (decrease) in other liabilities	**187,098**	(109,247)	159,358
Net cash provided by operating activities	**3,708,545**	4,170,954	4,849,221
Cash flows from investing activities:			
Increase in loans, net	**(6,479,721)**	(3,161,482)	(13,462,276)
Cash recoveries of loans previously charged off	**12,897**	33,843	73,091
Proceeds from redemption (purchase) of investment in the Farm Credit Bank of Texas	**(252,075)**	19,660	(107,235)
Purchases of premises and equipment	**(67,434)**	(2,521)	(98,329)
Proceeds from sales of premises and equipment	**-**	39,851	-
Proceeds from sales of other property owned	**351,745**	27,286	2,052,800
Net cash used in investing activities	**(6,434,588)**	(3,043,363)	(11,541,949)

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,		
	2016	2015	2014
Cash flows from financing activities:			
Net draws on note payable to the Farm Credit Bank of Texas	**5,030,803**	933,578	8,457,962
Decrease in drafts outstanding	**(51,080)**	(473,411)	(556,629)
Increase (decrease) in advance conditional payments	**1,272**	-	(4,323)
Issuance of capital stock and participation certificates	**129,390**	141,125	157,380
Retirement of capital stock and participation certificates	**(117,550)**	(121,015)	(98,705)
Cash patronage distributions	**(2,249,884)**	(1,600,000)	(1,250,000)
Net cash provided by (used in) financing activities	**2,742,951**	(1,119,723)	6,705,685
Net increase in cash	**16,908**	7,868	12,957
Cash at the beginning of the year	**104,812**	96,944	83,987
Cash at the end of the year	**$ 121,720**	$ 104,812	$ 96,944
Supplemental schedule of noncash investing and financing activities:			
Loans transferred to other property owned	**$ 364,207**	$ 27,286	$ 512,143
Loans charged off	**17,832**	1,375	175,274
Supplemental cash information:			
Cash paid during the year for:			
Interest	**$ 4,257,524**	$ 4,046,839	$ 3,726,900

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

LEGACY AG CREDIT, ACA
NOTES TO 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, 2016, 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, 2016, the district consisted of the bank, one FLCA and 13 ACA parent companies, which have two wholly-owned subsidiaries, an FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

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

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

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

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

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

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

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

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

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The association is in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations.

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

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

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

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

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

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

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

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

   The credit risk-rating methodology is a key component of the association's allowance for loan losses evaluation, and is generally incorporated into its loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered,

including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and economic conditions, and prior loan loss experience. Management may consider other qualitative factors in determining and supporting the level of allowance for loan losses including but not limited to: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects, borrower repayment capacity, depth of lender staff, and/or past trends, and weather-related influences. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the institutions' expectations and predictions of those circumstances.

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

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

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

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

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

G. Advance Conditional Payments: The association is authorized under the Act to accept advance payments from borrowers. To the extent that the borrower's access to such funds is restricted, the advance conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheet. Advance conditional payments are not insured. Interest is generally paid by the association on such accounts at rates established by the board of directors.

H. Employee Benefit Plans: Employees of the association participate in either the district defined benefit retirement plan (DB plan) or the defined contribution plan (DC plan). All eligible employees may participate in the Farm Credit Benefits Alliance 401(k) Plan. The DB plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB plan is noncontributory and provides benefits based on salary and years of service. The "projected unit credit" actuarial method is used for financial reporting and funding purposes for the DB plan.

   Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC plan direct the placement of their employers' contributions, 5.0 percent of eligible pay for the year ended December 31, 2016, 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 $116,444, $120,188 and $106,871 for the years ended December 31, 2016, 2015 and 2014 respectively. For the DB plan, the association recognized pension costs of $0, $0 and $0 for the years ended December 31, 2016, 2015 and 2014, respectively.

The association also participates in the Farm Credit Benefits Alliance 401(k) Plan, which requires the associations to match 100 percent of employee contributions up to 3.0 percent of eligible earnings and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The association's contributions to the 401(k) plan were $90,163, $91,227 and $84,413 for the years ended December 31, 2016, 2015 and 2014, respectively.

In addition to the DB plan, the DC plan and the Farm Credit Benefits Alliance 401(k) plans above, the association sponsors a defined contribution supplemental retirement plan. This plan is a nonqualified 401(k) plan however; to date no contributions 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 about the association's employee benefit plans, see Note 11, "Employee Benefit Plans."

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

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:

	2016		2015		2014	
Loan Type	**Amount**	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 190,398,110**	**80.0%**	$ 186,778,168	80.5%	$ 193,114,291	84.4%
Production and intermediate term	**11,091,817**	**4.7%**	10,701,356	4.6%	10,016,152	4.4%
Agribusiness:						
Loans to cooperatives	**1,577,708**	**0.7%**	384,688	0.2%	-	0.0%
Processing and marketing	**19,429,639**	**8.2%**	16,037,266	6.9%	7,971,551	3.5%
Farm-related business	**757,724**	**0.3%**	1,504,760	0.6%	999,124	0.4%
Communication	**2,930,922**	**1.2%**	2,071,279	0.9%	1,250,361	0.5%
Energy	**6,764,173**	**2.8%**	7,150,076	3.1%	7,875,308	3.4%
Water and waste water	**1,993,552**	**0.8%**	1,992,703	0.9%	1,991,857	0.9%
Rural residential real estate	**3,082,206**	**1.3%**	5,351,388	2.3%	5,670,567	2.5%
Total	**$ 238,025,851**	**100.0%**	$ 231,971,684	100.0%	$ 228,889,211	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, 2016:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ -	$ 1,014,457	$ -	$ -	$ -	$ 1,014,457
Production and intermediate term	2,850,633	-	-	-	2,850,633	-
Agribusiness	21,765,070	-	-	-	21,765,070	-
Communication	2,930,922	-	-	-	2,930,922	-
Energy	6,764,173	-	-	-	6,764,173	-
Water and waste water	1,993,552	-	-	-	1,993,552	-
Total	$ 36,304,350	$ 1,014,457	$ -	$ -	$ 36,304,350	$ 1,014,457

Geographic Distribution

County	**2016**	2015	2014
Van Zandt	**15.7%**	15.5%	16.9%
Hopkins	**14.4%**	14.5%	14.7%
Kaufman	**10.0%**	11.6%	11.6%
Wood	**8.5%**	7.4%	8.2%
Upshur	**7.4%**	6.8%	6.7%
Harrison	**6.0%**	6.1%	5.6%
Franklin	**3.0%**	3.8%	5.0%
Marion	**1.9%**	1.9%	2.0%
Rains	**1.1%**	0.9%	1.3%
Gregg	**0.7%**	0.8%	1.0%
Other	**31.3%**	30.7%	27.0%
Totals	**100.0%**	**100.0%**	**100.0%**

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

	2016		2015		2014	
Operation/Commodity	**Amount**	**%**	Amount	%	Amount	%
Livestock, except dairy and poultry	**$ 76,610,010**	**32.3%**	$ 72,959,559	31.4%	$ 69,950,992	30.7%
Field crops except cash grains	**44,502,979**	**18.7%**	45,248,687	19.5%	45,219,229	19.8%
Poultry and eggs	**29,576,552**	**12.4%**	23,674,166	10.2%	20,577,705	9.0%
Timber	**20,158,221**	**8.5%**	21,517,622	9.3%	23,386,284	10.2%
Food and kindred products	**10,426,815**	**4.4%**	5,347,692	2.3%	4,233,602	1.8%
Hunting, trapping and game propagation	**9,234,838**	**3.9%**	12,989,823	5.6%	12,648,384	5.5%
Dairy farms	**6,777,230**	**2.8%**	7,008,468	3.0%	13,121,811	5.7%
Electric services	**6,764,173**	**2.8%**	7,090,033	3.1%	7,385,789	3.2%
Real estate	**6,314,983**	**2.7%**	6,384,081	2.8%	6,314,983	2.8%
Animal specialties	**5,347,715**	**2.2%**	5,554,630	2.4%	5,125,456	2.2%
Wholesale trade - nondurable goods	**4,406,429**	**1.9%**	4,432,025	1.9%	2,508,144	1.1%
Rural home loans	**4,394,522**	**1.8%**	4,619,010	2.0%	5,215,353	2.3%
Communication	**2,930,922**	**1.2%**	2,137,173	0.9%	1,318,218	0.6%
Paper and allied products	**2,647,519**	**1.1%**	2,660,091	1.1%	730,355	0.3%
Metal cans	**2,059,825**	**0.9%**	2,052,948	0.9%	2,133,866	0.9%
Water supply	**1,993,552**	**0.8%**	1,992,703	0.9%	1,991,857	0.9%
Chemical and allied products	**1,201,029**	**0.5%**	3,217,098	1.4%	1,508,315	0.7%
Agricultural services	**1,011,243**	**0.4%**	1,358,354	0.6%	1,466,120	0.6%
Trucking and courier services, except air	**416,980**	**0.2%**	432,176	0.2%	447,352	0.2%
Fruit and tree nuts	**354,708**	**0.1%**	301,021	0.1%	580,745	0.3%
Horticultural specialties	**217,303**	**0.1%**	226,070	0.1%	54,089	0.0%
Fish hatcheries and preserves	**216,982**	**0.1%**	378,333	0.2%	-	0.0%
General farms, primarily crops	**188,575**	**0.1%**	229,967	0.1%	282,405	0.1%
Vegetables and melons	**154,028**	**0.1%**	21,791	0.0%	47,291	0.0%
Cash grains	**57,845**	**0.0%**	62,675	0.0%	659,320	0.3%
General farms, primarily livestock	**44,124**	**0.0%**	46,693	0.0%	48,748	0.0%
Farm and garden machinery equipment	**16,749**	**0.0%**	28,795	0.0%	39,163	0.0%
Lumber and wood products, except furniture	**-**	**0.0%**	-	0.0%	2,440	0.0%
Wheat	**-**	**0.0%**	-	0.0%	1,463,051	0.6%
Bituminous coal and lignite mining	**-**	**0.0%**	-	0.0%	428,144	0.2%
Total	**$ 238,025,851**	**100.0%**	$ 231,971,684	100.0%	$ 228,889,211	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, 2016	December 31, 2015	December 31, 2014
Nonaccrual loans:			
Real estate mortgage	**$ 1,625,001**	$ 4,751,398	$ 2,650,134
Production and intermediate term	**1,435,976**	65,142	120,867
Rural residential real estate	**-**	17,894	20,616
Total nonaccrual loans	**3,060,977**	4,834,434	2,791,617
Accruing restructured loans:			
Real estate mortgage	**3,258,080**	3,450,056	3,289,626
Total accruing restructured loans	**3,258,080**	3,450,056	3,289,626
Total nonperforming loans	**6,319,057**	8,284,490	6,081,243
Other property owned	**221,724**	173,976	295,631
Total nonperforming assets	**$ 6,540,781**	$ 8,458,466	$ 6,376,874

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:

	2016	2015	2014
Real estate mortgage			
Acceptable	**90.3** %	87.8 %	83.2 %
OAEM	**8.2**	8.6	12.6
Substandard/doubtful	**1.5**	3.6	4.2
	100.0	100.0	100.0
Production and intermediate term			
Acceptable	**86.8**	85.8	83.1
OAEM	**0.2**	0.2	0.3
Substandard/doubtful	**13.0**	14.0	16.6
	100.0	100.0	100.0
Loans to cooperatives			
Acceptable	**100.0**	100.0	-
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	-
Processing and marketing			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Farm-related business			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Communication			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Energy			
Acceptable	**78.9**	100.0	100.0
OAEM	**21.1**	-	-
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	**98.8**	99.2	99.0
OAEM	**1.2**	0.5	0.6
Substandard/doubtful	**-**	0.3	0.4
	100.0	100.0	100.0
Total Loans			
Acceptable	**91.0**	89.5	85.1
OAEM	**7.2**	7.0	10.6
Substandard/doubtful	**1.8**	3.5	4.3
	100.0 %	100.0 %	100.0 %

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

December 31, 2016:	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or less than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 836,988**	**$ 226,436**	**$ 1,063,424**	**$ 190,246,980**	**$ 191,310,404**	**$ -**
Production and intermediate term	**151,216**	**1,383,672**	**1,534,888**	**9,647,089**	**11,181,977**	**-**
Loans to cooperatives	**-**	**-**	**-**	**1,578,007**	**1,578,007**	**-**
Processing and marketing	**-**	**-**	**-**	**19,436,267**	**19,436,267**	**-**
Farm-related business	**-**	**-**	**-**	**758,957**	**758,957**	**-**
Communication	**-**	**-**	**-**	**2,931,457**	**2,931,457**	**-**
Energy	**-**	**-**	**-**	**6,827,939**	**6,827,939**	**-**
Water and waste water	**-**	**-**	**-**	**2,023,774**	**2,023,774**	**-**
Rural residential real estate	**2,558**	**-**	**2,558**	**3,085,739**	**3,088,297**	**-**
Total	**$ 990,762**	**$ 1,610,108**	**$ 2,600,870**	**$ 236,536,209**	**$ 239,137,079**	**$ -**

December 31, 2015:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 1,385,684	$ 2,841,983	$ 4,227,667	$ 183,480,032	$ 187,707,699	$ -
Production and intermediate term	-	-	-	10,796,190	10,796,190	-
Loans to cooperatives	-	-	-	384,856	384,856	-
Processing and marketing	-	-	-	16,059,345	16,059,345	-
Farm-related business	-	-	-	1,506,047	1,506,047	-
Communication	-	-	-	2,071,430	2,071,430	-
Energy	-	-	-	7,161,633	7,161,633	-
Water and waste water	-	-	-	2,022,925	2,022,925	-
Rural residential real estate	-	-	-	5,368,633	5,368,633	-
Total	$ 1,385,684	$ 2,841,983	$ 4,227,667	$ 228,851,091	$ 233,078,758	$ -

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	-
Loans to cooperatives	-	-	-	-	-	-
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	$ -

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

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

As of December 31, 2016, the total recorded investment of troubled debt restructured loans was $3,548,729, including $290,649 classified as nonaccrual and $3,258,080 classified as accrual, with specific allowance for loan losses of $385,190. The specific allowance is determined quarterly through a net realizable value analysis for each individual loan asset. As of December 31, 2016, there were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring.

There were no troubled debt restructurings that occurred during 2016. 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, 2015 and 2014. 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, 2015:	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 374,282	$ 373,837
Total	$ 374,282	$ 373,837

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

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, 2016.

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

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, 2016**	Recorded Investment at December 31, 2015	Recorded Investment at December 31, 2014
Real estate mortgage	**$ 43,504**	$ -	$ 150,970
Total	**$ 43,504**	$ -	$ 150,970

There were no additional commitments to lend to borrowers whose loans have been modified in TDRs at December 31, 2016, 2015 and 2014.

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, 2016	December 31, 2015	December 31, 2014
Troubled debt restructurings:			
Real estate mortgage	**$ 3,511,594**	$ 3,932,537	$ 3,674,258
Production and intermediate term	**37,135**	57,094	74,645
Total	**$ 3,548,729**	$ 3,989,631	$ 3,748,903

	TDRs on Nonaccrual Status*		
	December 31, 2016	December 31, 2015	December 31, 2014
Troubled debt restructurings:			
Real estate mortgage	**$ 253,514**	$ 482,482	$ 384,632
Production and intermediate term	**37,135**	57,094	74,645
Total	**$ 290,649**	$ 539,576	$ 459,277

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

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/2016	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 2,304,266	$ 2,353,442	$ 395,561	$ 2,427,244	$ 142,308
Production and intermediate term	652,689	652,751	197,882	280,981	-
Total	$ 2,956,955	$ 3,006,193	$ 593,443	$ 2,708,225	$ 142,308
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,578,815	$ 2,589,436	$ -	$ 2,417,285	$ 343,502
Production and intermediate term	783,287	3,215,302	-	384,050	2,254
Total	$ 3,362,102	$ 5,804,738	$ -	$ 2,801,335	$ 345,756
Total impaired loans:					
Real estate mortgage	$ 4,883,081	$ 4,942,878	$ 395,561	$ 4,844,529	$ 485,810
Production and intermediate term	1,435,976	3,868,053	197,882	665,031	2,254
Total	$ 6,319,057	$ 8,810,931	$ 593,443	$ 5,509,560	$ 488,064

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

	Recorded Investment at 12/31/2015	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 3,188,130	$ 3,240,641	$ 696,122	$ 2,756,483	$ 197,033
Production and intermediate term	57,093	64,327	6,273	67,981	-
Total	$ 3,245,223	$ 3,304,968	$ 702,395	$ 2,824,464	$ 197,033
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 5,013,324	$ 5,039,562	$ -	$ 3,874,518	$ 299,837
Production and intermediate term	8,049	2,446,676	-	16,606	1,888
Rural residential real estate	17,894	17,956	-	19,153	-
Total	$ 5,039,267	$ 7,504,194	$ -	$ 3,910,277	$ 301,725
Total impaired loans:					
Real estate mortgage	$ 8,201,454	$ 8,280,203	$ 696,122	$ 6,631,001	$ 496,870
Production and intermediate term	65,142	2,511,003	6,273	84,587	1,888
Rural residential real estate	17,894	17,956	-	19,153	-
Total	$ 8,284,490	$ 10,809,162	$ 702,395	$ 6,734,741	$ 498,758

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

	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

[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, 2016, 2015 and 2014.

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

	2016	2015	2014
Interest income which would have been recognized under the original terms	**$ 690,403**	$ 737,535	$ 494,267
Less: interest income recognized	**(488,064)**	(498,758)	(241,622)
Foregone interest income	**$ 202,339**	$ 238,777	$ 252,645

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, 2015	$ 2,104,266	$ 158,146	$ 20,786	$ 1,960	$ 53,291	$ 15,020	$ 4,250	$ 2,357,719
Charge-offs	(17,833)	-	-	-	-	-	-	(17,833)
Recoveries	2,254	10,643	-	-	-	-	-	12,897
Provision for loan losses	(394,234)	89,111	8,099	963	25,820	(20)	(1,574)	(271,835)
Balance at December 31, 2016	$ 1,694,453	$ 257,900	$ 28,885	$ 2,923	$ 79,111	$ 15,000	$ 2,676	$ 2,080,948
Ending Balance: individually evaluated for impairment	$ 395,561	$ 197,882	$ -	$ -	$ -	$ -	$ -	$ 593,443
Ending Balance: collectively evaluated for impairment	$ 1,298,891	$ 60,019	$ 28,885	$ 2,923	$ 79,111	$ 15,000	$ 2,676	$ 1,487,505
Recorded Investment in Loans Outstanding:								
Ending Balance at December 31, 2016	$ 191,310,404	$ 11,181,977	$ 21,773,231	$ 2,931,457	$ 6,827,939	$ 2,023,774	$ 3,088,297	$ 239,137,079
Ending balance for loans individually evaluated for impairment	$ 4,883,081	$ 1,435,976	$ -	$ -	$ -	$ -	$ -	$ 6,319,057
Ending balance for loans collectively evaluated for impairment	$ 186,427,323	$ 9,746,001	$ 21,773,231	$ 2,931,457	$ 6,827,939	$ 2,023,774	$ 3,088,297	$ 232,818,022

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:								
Balance at December 31, 2014	$ 2,776,745	$ 201,056	$ 11,399	$ 1,330	$ 20,953	$ 11,314	$ 3,574	$ 3,026,371
Charge-offs	(1,375)	-	-	-	-	-	-	(1,375)
Recoveries	22,458	11,385	-	-	-	-	-	33,843
Provision for loan losses	(694,089)	(54,295)	9,387	630	32,338	3,706	1,203	(701,120)
Balance at December 31, 2015	$ 2,103,739	$ 158,146	$ 20,786	$ 1,960	$ 53,291	$ 15,020	$ 4,777	$ 2,357,719
Ending Balance: individually evaluated for impairment	$ 696,122	$ 6,273	$ -	$ -	$ -	$ -	$ -	$ 702,395
Ending Balance: collectively evaluated for impairment	$ 1,407,617	$ 151,873	$ 20,786	$ 1,960	$ 53,291	$ 15,020	$ 4,777	$ 1,655,324
Recorded Investment in Loans Outstanding:								
Ending Balance at December 31, 2015	$ 187,707,699	$ 10,796,190	$ 17,950,248	$ 2,071,430	$ 7,161,633	$ 2,022,925	$ 5,368,633	$ 233,078,758
Ending balance for loans individually evaluated for impairment	$ 8,201,454	$ 65,142	$ -	$ -	$ -	$ -	$ 17,894	$ 8,284,490
Ending balance for loans collectively evaluated for impairment	$ 179,506,245	$ 10,731,048	$ 17,950,248	$ 2,071,430	$ 7,161,633	$ 2,022,925	$ 5,350,739	$ 224,794,268

	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

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 1.32 percent of the issued stock of the bank as of December 31, 2016. As of that date, the bank's assets totaled $21.2 billion and members' equity totaled $1.622 billion. The bank's earnings were $192.4 million during 2016.

NOTE 5 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2016	2015	2014
Land and improvements	**$ 97,859**	$ 97,859	$ 97,859
Building and improvements	**508,039**	508,040	508,040
Furniture and equipment	**72,050**	66,400	63,984
Computer equipment and software	**60,437**	70,822	88,538
Automobiles	**391,704**	346,064	413,378
	1,130,089	1,089,185	1,171,799
Accumulated depreciation	**(644,688)**	(614,433)	(595,408)
Total	**$ 485,401**	$ 474,752	$ 576,391

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 2017. General office equipment is leased with expiration in 2019. Lease expense was $52,260, $52,212 and $50,328 for 2016, 2015 and 2014, respectively. Minimum annual lease payments for the next five years are as follows:

	Operating
2017	$ 31,702
2018	3,552
2019	2,664
2020	-
2021	-
Thereafter	-
Total	$ 37,918

NOTE 6 — OTHER PROPERTY OWNED, NET:

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

	2016	2015	2014
Gain (loss) on sale, net	**$ 50,975**	$ (44,765)	$ 1,286,079
Provision expense	**(15,689)**	(76,890)	(237,159)
Operating income (expense), net	**(30,566)**	(15,126)	(29,218)
Net gain (loss) on other property owned	**$ 4,720**	$ (136,781)	$ 1,019,702

Other property owned consisted of one property at December 31, 2016. This property consists of a house with poultry houses and land. The net carrying value of the property is equivalent to its fair value of $221,724. Net operating expenses incurred on other property owned were $46,255. During 2016, there were two sales of other property owned that resulted in a net gain of $50,975.

During 2015, the association wrote-off the remaining balance of one acquired property. The property consisted of inventory which was deemed to be uncollectible. This write-off resulted in a loss of $44,765.

During 2014, there was one sale of other property owned that resulted in a gain of $1,286,079.

NOTE 7 — OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	2016	2015	2014
Accounts receivable other	**$ 326,258**	$ 140,032	$ 127,142
Other	**12,389**	11,750	11,667
Total	**$ 338,647**	$ 151,782	$ 138,809

Other liabilities comprised the following at December 31:

	2016	2015	2014
Accounts payable	**$ 851,787**	$ 659,467	$ 746,340
Post-retirement benefits liability	**236,076**	229,541	199,676
Accrued annual leave	**141,047**	134,480	126,152
Other	**7,975**	9,413	10,340
Total	**$ 1,236,885**	$ 1,032,901	$ 1,082,508

NOTE 8 — NOTE PAYABLE TO THE BANK:

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

The total amount and the weighted average interest rate of the association's direct loan from the bank at December 31, 2016, 2015 and 2014, was $183,651,931 at 2.28 percent, $178,621,128 at 2.23 percent and $177,687,550 at 2.17 percent, respectively.

Under the Act, the association is obligated to borrow only from the bank unless the bank approves borrowing from other funding sources. The bank and FCA regulations have established limitations on the association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2016, 2015 and 2014, the association's note payable was within the specified limitations. The maximum amount the association may borrow from the bank as of December 31, 2016, was $224,319,605, 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, 2016, 2015 and 2014, the association was not subject to remedies associated with the covenants in the general financing agreement.

NOTE 9 — MEMBERS' EQUITY:

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

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

In accordance with the Act and the association's capitalization bylaws, each borrower is required to invest in the association as a condition of borrowing. The investment in Class A capital stock (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, 2016, 2015 and 2014, 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 2016, 2015 and 2014, respectively:

Date Declared	**Date Paid**	**Patronage**
January 2016	March 2016	2,249,884
January 2015	March 2015	1,600,000
January 2014	March 2014	1,250,000

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, 2016, the association is not prohibited from retiring stock or distributing earnings. Furthermore, neither the board nor senior management knows of any such prohibitions that may apply during the subsequent fiscal year. The association's permanent capital ratio, core surplus ratio and total surplus ratio at December 31, 2016, were 22.8 percent, 22.4 percent and 22.4 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:

	2016	2015	2014
Class A stock	**216,141**	213,633	209,928
Participation certificates	**6,322**	6,462	6,145
Total	**222,463**	220,095	216,073

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

Accumulated Other Comprehensive Income (Loss)			
December 31, 2016	**2016**	2015	2014
Nonpension postretirement benefits	**$ 76,474**	$ 93,360	$ 153,000

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:

	2016	2015	2014
Accumulated other comprehensive income (loss) at January 1	**$ 93,360**	$ 153,000	$ 237,475
Actuarial gains(losses)	**(4,065)**	(30,129)	(42,482)
Amortization of prior service (credit) costs included in salaries and employee benefits	**(8,197)**	(8,215)	(8,547)
Amortization of actuarial (gain) loss included in salaries and employee benefits	**(4,624)**	(21,296)	(33,446)
Other comprehensive income (loss), net of tax	**(16,886)**	(59,640)	(84,475)
Accumulated other comprehensive income at December 31	**$ 76,474**	$ 93,360	$ 153,000

NOTE 10 — INCOME TAXES:

There was no provision for income taxes for the years ended December 31, 2016, 2015 or 2014.

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

	2016	2015	2014
Federal tax at statutory rate	**$ 1,359,391**	$ 1,579,960	$ 1,810,155
Effect of nontaxable FLCA subsidiary	**(2,007,105)**	(2,131,610)	(2,356,157)
Change in valuation allowance	**648,442**	552,029	531,817
Other	**(728)**	(379)	14,185
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:

	2016	2015	2014
Deferred Tax Assets			
Allowance for loan losses	**$ 89,528**	$ 54,541	$ 69,438
Loss carryforwards	**6,740,702**	6,127,247	5,560,321
Gross deferred tax assets	**6,830,230**	6,181,788	5,629,759
Deferred tax asset valuation allowance	**(6,830,230)**	(6,181,788)	(5,629,759)
Net deferred tax asset (liability)	**$ -**	$ -	$ -

The association recorded valuation allowances of $6,830,230, $6,181,788 and $5,629,759 during 2016, 2015 and 2014, 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 CEO and certain executive or highly-compensated employees in the association are eligible to participate in a separate nonqualified supplemental 401(k) plan, named the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (supplemental 401(k) plan). This plan allows district employers to elect to participate in any or all of the following benefits:

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

The association elected to participate in the defined contribution supplemental retirement plan. There were no contributions made to this plan for the years ended December 31, 2016, 2015 and 2014. There were no payments made from the supplemental 401(k) plan to active employees during 2016, 2015 and 2014.

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, 2016.

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, 2016, 2015 and 2014:

	2016	2015	2014
Funded status of plan	**66.4** %	66.8 %	67.5 %
Association's contribution	**$ -**	$ -	$ -
Percentage of association's contribution to total contributions	**0.0** %	0.0 %	0.0 %

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

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	2016	2015	2014
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	**$ 229,541**	$ 199,676	$ 158,406
Service cost	**6,670**	4,847	3,985
Interest cost	**10,484**	8,827	7,953
Plan participants' contributions	**690**	690	667
Actuarial loss (gain)	**4,065**	30,129	42,482
Benefits paid	**(15,374)**	(14,628)	(13,817)
Accumulated postretirement benefit obligation, end of year	**$ 236,076**	$ 229,541	$ 199,676
Change in Plan Assets			
Plan assets at fair value, beginning of year	**$ -**	$ -	$ -
Company contributions	**14,684**	13,938	13,150
Plan participants' contributions	**690**	690	667
Benefits paid	**(15,374)**	(14,628)	(13,817)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Funded status of the plan	**$ (236,076)**	$ (229,541)	$ (199,676)
Amounts Recognized in Statement of Financial Position			
Other liabilities	**$ (236,076)**	$ (229,541)	$ (199,676)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss (gain)	**$ (62,132)**	$ (70,821)	$ (122,246)
Prior service cost (credit)	**(14,342)**	(22,539)	(30,754)
Total	**$ (76,474)**	$ (93,360)	$ (153,000)
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	**12/31/2016**	12/31/2015	12/31/2014
Discount rate	**4.60%**	4.70%	4.55%
Health care cost trend rate assumed for next year (pre-/post-65) - medical/Rx	**6.75%/6.50%**	7.00%/6.50%	7.25%/6.75%
Ultimate health care cost trend rate	**4.50%**	4.50%	5.00%
Year that the rate reaches the ultimate trend rate	**2025/2024**	2025	2024

Total Cost		**2016**		2015		2014
Service cost	**$**	**6,670**	$	4,847	$	3,985
Interest cost		**10,484**		8,827		7,953
Amortization of:						
Unrecognized prior service cost		**(8,197)**		(8,215)		(8,547)
Unrecognized net loss (gain)		**(4,624)**		(21,296)		(33,446)
Net postretirement benefit cost	**$**	**4,333**	$	(15,837)	$	(30,055)
Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income						
Net actuarial loss (gain)	**$**	**4,065**	$	30,129	$	42,482
Amortization of net actuarial loss (gain)		**4,624**		21,296		33,446
Amortization of prior service cost		**8,197**		8,215		8,547
Total recognized in other comprehensive income	**$**	**16,886**	$	59,640	$	84,475
AOCI Amounts Expected to be Amortized Into Expense in 2017						
Unrecognized prior service cost	**$**	**(8,197)**				
Unrecognized net loss (gain)		**(3,595)**				
Total	**$**	**(11,792)**				
Weighted-Average Assumptions Used to Determine Benefit Cost						
Measurement date		**12/31/2015**		12/31/2014		12/31/2013
Discount rate		**4.70%**		4.55%		5.20%
Health care cost trend rate assumed for next year (pre-/post-65) - medical/Rx		**7.00%/6.5%**		7.25%/6.75%		7.50%/6.50%
Ultimate health care cost trend rate		**4.50%**		5.00%		5.00%
Year that the rate reaches the ultimate trend rate		**2025**		2024		2024

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)		
Fiscal 2017	**$**	**14,612**
Fiscal 2018		**15,441**
Fiscal 2019		**16,485**
Fiscal 2020		**17,858**
Fiscal 2021–2025		**19,459**
Fiscal 2022–2026		**71,416**
Expected Contributions		
Fiscal 2017	**$**	**14,612**

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 $1,710,221, $1,823,725 and $2,121,471 at December 31, 2016, 2015 and 2014, respectively. During 2016, $180,577 of new loans were made, and repayments totaled $263,088. In the opinion of management, no such loans outstanding at December 31, 2016, 2015 and 2014 involved more than a normal risk of collectability.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems and accounting services and allocations of expenses incurred by the bank and passed through to the associations, such as FCSIC expenses. The bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled $509,604, $451,704 and $412,630 in 2016, 2015 and 2014, respectively.

The association received patronage payments from the bank totaling $850,293, $813,041 and $837,926 during 2016, 2015 and 2014, 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, 2016	**Fair Value Measurement Using**			**Total Fair**	**Total**
	Level 1	**Level 2**	**Level 3**	**Value**	**Gains (Losses)**
Assets:					
Loans	**$ -**	**$ -**	**$ 3,549,508**	**$ 3,549,508**	**$ -**
Other property owned	**-**	**-**	**276,000**	**276,000**	**-**

December 31, 2015	Fair Value Measurement Using			Total Fair	Total
	Level 1	Level 2	Level 3	Value	Gains (Losses)
Assets:					
Loans	$ -	$ -	$ 2,707,733	$ 2,707,733	$ -
Other property owned	-	-	190,400	190,400	-

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	-

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, 2016
Fair Value Measurement Using

	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:					
Cash	**$ 121,720**	**$ 121,720**	**$ -**	**$ -**	**$ 121,720**
Net loans	**232,395,395**	**-**	**-**	**229,955,472**	**229,955,472**
Total Assets	**$ 232,517,115**	**$ 121,720**	**$ -**	**$ 229,955,472**	**$ 230,077,192**
Liabilities:					
Note payable to bank	**$ 183,651,931**	**$ -**	**$ -**	**$ 180,621,674**	**$ 180,621,674**
Total Liabilities	**$ 183,651,931**	**$ -**	**$ -**	**$ 180,621,674**	**$ 180,621,674**

December 31, 2015
Fair Value Measurement Using

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 104,812	$ 104,812	$ -	$ -	$ 104,812
Net loans	226,906,232	-	-	224,934,473	224,934,473
Total Assets	$ 227,011,044	$ 104,812	$ -	$ 224,934,473	$ 225,039,285
Liabilities:					
Note payable to bank	$ 178,621,128	$ -	$ -	$ 177,102,848	$ 177,102,848
Total Liabilities	$ 178,621,128	$ -	$ -	$ 177,102,848	$ 177,102,848

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

The association had no assets or liabilities measured at fair value on a recurring basis for 2016, 2015 or 2014.

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.

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, 2016, $14,556,886 of commitments and $127,803 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

Effective January 10, 2017 the association was placed under Special Supervision by the Farm Credit Administration (FCA) related to the manner in which the decision was made to terminate the merger with Texas Farm Credit Services. The FCA also established a number of supervisory requirements including: (1) the engagement of a board consultant approved by the FCA, and (2) FCA notification prior to any material board decisions, or any actions related to the composition and structure of the board, bylaw changes, or association management. In response to the supervisory requirements the board has engaged a consultant with many years of direct Farm Credit related experience that will also serve as an independent administrative resource for the association director nominating committee. The board has also added an additional outside director who brings many years of Farm Credit experience to the association. A search for a CEO is in process.

NOTE 16 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

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

	2016				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 1,809**	**$ 1,796**	**$ 1,844**	**$ 2,077**	**$ 7,526**
(Provision for) reversal of loan losses	**42**	**13**	**178**	**39**	**272**
Noninterest income (expense), net	**(1,011)**	**(1,019)**	**(970)**	**(914)**	**(3,914)**
Net income	**$ 840**	**$ 790**	**$ 1,052**	**$ 1,202**	**$ 3,884**

	2015				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,112	$ 1,849	$ 1,887	$ 1,870	$ 7,718
(Provision for) reversal of loan losses	291	380	19	11	701
Noninterest income (expense), net	(1,011)	(1,049)	(991)	(854)	(3,905)
Net income	$ 1,392	$ 1,180	$ 915	$ 1,027	$ 4,514

	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

NOTE 17 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through March 15, 2017, which is the date the financial statements were issued or available to be issued.

Effective January 10, 2017 the association was placed under Special Supervision by the Farm Credit Administration (FCA) related to the manner in which the decision was made to terminate the merger with Texas Farm Credit Services. The FCA also established a number of supervisory requirements including: (1) the engagement of a board consultant approved by the FCA, and (2) FCA notification prior to any material board decisions, or any actions related to the composition and structure of the board, bylaw changes, or association management. In response to the supervisory requirements the board has engaged a consultant with many years of direct Farm Credit related experience that will also serve as an independent administrative resource for the association director nominating committee. The board has also added an additional outside director who brings many years of Farm Credit experience to the association. A search for a CEO is in process.

In January 2017, the Board of Directors approved a patronage payment related to 2016 earnings of $2,400,000. The patronage will be paid in April 2017.

In January 2017, one borrower's loans in the amount of $2,671,074 were downgraded to substandard viable within the loan portfolio. The loans are well collateralized and a loss is not expected.

There are no other subsequent events requiring disclosure as of March 15, 2017.

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

Legacy Ag Credit, ACA (association) serves its 10-county territory through its main administrative and lending office at 303 Connally St., Sulphur Springs, Texas 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 annual and quarterly stockholder reports of the Farm Credit Bank of Texas (bank) and of the Texas Farm Credit District (district) are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720-2590 or calling (512) 483-9204. Copies of the bank and district annual and quarterly stockholder reports can also be requested by e-mailing *fcb@farmcreditbank.com*. The annual and quarterly stockholder reports are also available on its website at *www.farmcreditbank.com*.

The association's quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter end and can be obtained by writing to 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. 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, 2016, 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
Terry D. Milligan	Chairman of the Board	2010	2019
John Shinn	Board-Appointed Director	2016	2019
A.G. Sandifeer	Vice Chairman	2001	2017
Cody Newman	Director	2000	2019
Ron Gabriel	Director	2011	2018
Paul Nicklas	Director	2013	2018
Al Conner	Interim CEO	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.

Terry D. Milligan, chairman of the board. Mr. Milligan owns and operates a beef cattle operation and hay production operation in Van Zandt County and Bryan and Atoka counties in Oklahoma, and operates Milligan & Company Fire Ant Control. In 2015, he retired from USDA after 34 years of service. Mr. Milligan holds an associate's degree in Farm and Ranch Management from Murray State College in Tishomingo, Oklahoma. Mr. Milligan currently serves as chairman of the board. He had previously served as vice chairman of the board and executive session secretary and has served as director since his election in 2010.

John Shinn, chairman of the audit committee. Mr. Shinn resides in Ben Wheeler, Texas. He holds a BBA in accounting, has been a CPA since 1984 and owns and operates a private CPA practice in Van Zandt County, Texas. He previously served as Van Zandt County Auditor, and serves as a member of the Van Zandt County Child Welfare Board and the Van Zandt County Wildlife and Nature Resources Committee. Mr. Shinn has served as director since his appointment in 2016.

A.G. Sandifeer, vice chairman of the board. 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 currently serves as chief of the Dike Volunteer Fire Department. He has served as a director since 2001.

Cody Newman, director. Mr. Newman is president and co-owner in a family business, the Newman Corporation, which manages investments and operational activities in cattle production, and oil and gas production and real estate development, located in Harrison County. He serves as a board member 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. Mr. Newman holds a B.S. in agriculture and business from Texas A&M Commerce. He served as director at large for the association from 2000 until he was elected director in 2008. He was elected board vice chairman in 2010 and served in that position until 2015. Additionally, he serves as audit committee vice chairman and chairman of the compensation committee.

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 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. and CLUHEIR, LLC. He is past chairman of the Legacy Ag Credit, ACA Compensation Committee and the Nominating Committee, and served on the Spring Hill School Board for six 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 former licensed Texas real estate agent, a professional bondsman of Texas and a retired Texas peace officer. He has served as director since his election in 2013.

Al Conner serves as interim chief executive 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 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 senior vice president 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 senior vice president 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 $700 per day for official activities and $150 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 2016 was paid at the IRS-approved rate of 54.0 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 2016
Terry D. Milligan	25	39	$ 40,650
John Shinn	3	0	2,100
A.G. Sandifeer	25	28	31,750
Cody Newman	24	19	25,300
Ron Gabriel	21	33	33,550
Paul Nicklas	23	31	34,100
Jerry Cordell	22	29	31,050
Wayne Bawcum, CPA	23	28	27,100
			$ 225,600

The aggregate compensation paid to directors in 2016, 2015 and 2014 was $225,600, $162,200 and $152,900, respectively.

Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows for 2016:

Director	Committee	
	Audit	Other Official Activities
Terry D. Milligan	$ 600	$ 40,050
John Shinn	-	2,100
A.G. Sandifeer	600	31,150
Cody Newman	600	24,700
Ron Gabriel	600	32,950
Paul Nicklas	600	33,500
Jerry Cordell	300	30,750
Wayne Bawcum, CPA	600	26,500
	$ 3,900	$ 221,700

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $63,514, $54,850 and $72,959 in 2016, 2015 and 2014, 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 2016, 2015 and 2014 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.

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 loan growth, credit quality, average delinquencies for the year and adjusted net income. 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 2016, 2015 and 2014. 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	Year	Salary(b)	Bonus(c)	Deferred/ Perquisite(d)	Total
Al Conner (Interim)	**2016**	**$ 166,648**	**$ 17,497**	**$ 2,488**	**$ 186,632**
Joseph Crouch	**2016**	**224,837**	**23,636**	**45,238**	**293,711**
CEO / President	2015	218,553	27,318	44,343	290,214
	2014	212,188	34,479	48,050	294,717
Aggregate Number of Senior Officers (& other highly compensated employees, if applicable) (a)					
4	**2016**	**$ 460,230**	**$ 69,913**	**$ 116,863**	**$ 647,006**
6	2015	692,103	105,067	150,230	947,399
5	2014	590,590	95,968	128,845	815,403

(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).

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

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 2016 at the IRS-approved rate of 54.0 cents per mile.

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 2016 annual report. The total fees paid for professional services rendered by PricewaterhouseCoopers LLP for the association during 2016 were $47,800 for audit services and $9,700 for tax services.

RELATIONSHIP WITH UNINCORPORATED BUSINESS ENTITIES

The association has a business relationship with LAC Asset Holding, LLC, which is a limited liability company, formed for the purpose of acquiring and managing unusual and complex collateral (acquired property).

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 15, 2017, and the report of management in this annual report to stockholders, are incorporated herein by reference.

MEMBER/SHAREHOLDER PRIVACY

Members' nonpublic personal financial information is protected by Farm Credit Administration regulation. 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

2017 Credit and Services Plan to Young, Beginning and Small Farmer 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, and 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		
Young Farmers	1,091	7.5%
Beginning Farmers	4,239	29.1%
Small Farmers	14,169	97.3%
Total Farms	14,562	

	Legacy Ag Credit, ACA			
	2016 Loans	% of Portfolio	2015 Loans	% of Portfolio
Young Farmers	255	15.7%	265	16.5%
Beginning Farmers	842	51.8%	865	54.0%
Small Farmers	1,345	82.7%	1,312	81.9%
Total Loans	1,627		1,602	

*For 10 chartered association counties

Association Goals

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 table for 2016 and 2015.

Compared to the United States Department of Agriculture's 2012 Census of Agriculture data for the 10 chartered association counties, Legacy is outpacing demographics in its penetration of the young and beginning farmer segments. The largest potential for future penetration continues to be in the small farmer category and, while small farmers currently represent roughly 82

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 chart on the following page outlines, overall YBS loan targets for 2016 relative to plan were not achieved. Overall association loan goals were not achieved in 2016 and the YBS targets mirror those shortfalls.

As the ssociation continues to build momentum in the marketplace, the association has established an aggressive goal for 2017. Continued enhancement of the association's visibility in the communities in which we serve, as well as direct marketing and communications, particularly to YBS farmers in our territory, will improve the association's ability to reach its goals.

The following chart identifies the association's goals for years 2017, 2018 and 2019. 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.

2016 Actual Numbers
(000's omitted)

	Loans Outstanding		Gross New Business	
Category	**Number of Loans**	**Volume**	**Number of Loans**	**Volume**
Young	255	$21,982	37	$2,711
Beginning	842	$115,886	133	$19,451
Small	1,345	$158,102	252	$32,413

2016 Goals

	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	$34,920

2017 Goals

	Loans Outstanding		Gross New Business Plus Commitments FYE	
Category	**Number of Loans**	**Volume**	**Number of Loans**	**Volume**
Young	263	$22,641	61	$4,622
Beginning	867	$119,363	159	$28,081
Small	1,385	$162,845	276	$35,967

2018 Goals

	Loans Outstanding		Gross New Business Plus Commitments FYE	
Category	**Number of Loans**	**Volume**	**Number of Loans**	**Volume**
Young	271	$23,321	63	$4,761
Beginning	893	$122,943	163	$28,924
Small	1,427	$167,730	284	$37,046

2019 Goals

	Loans Outstanding		Gross New Business Plus Commitments FYE	
Category	**Number of Loans**	**Volume**	**Number of Loans**	**Volume**
Young	279	$24,020	64	$4,904
Beginning	920	$126,632	168	$29,792
Small	1,470	$172,762	293	$38,158

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 with valuable information regarding farm planning and management, product marketing, and risk management
- 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 the YBS Segment

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

- Co-sponsorship of a value-added workshop targeting young farmers and ranchers within the territory
- Support and participation of career day events at local universities
- Sponsorship of an association borrower for the 2016 Farm Credit Young Leaders Program, which gives current and future leaders insight into the ways 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 hay shows and rodeos within the territory

- 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 Systemwide 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 a total of $200,000 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 districtwide 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.

- Loans to FFA & 4H students for the purchase of show animals.