Legacy Ag Credit, ACA

2019 ANNUAL REPORT

Part of the Farm Credit System

Letter to Stockholders

To our Stockholders:

On behalf of the Board or Directors and staff of Legacy Ag Credit, ACA, we are pleased to present our 2019 Annual Report and financial results.

In 2019, we continued to reach additional customers across our 10-county territory with additional marketing and public relations efforts, loan officer prospecting and customer appreciation events. All of these and other efforts helped spread the message of Legacy and Farm Credit to prospective and existing customers, and contributed to a successful 2019.

Opportunities for poultry loans remained strong in 2019, and with an experienced lending staff Legacy, is uniquely equipped to work with prospective customers looking to be involved in the poultry industry. Loans for recreational land and rural real estate continued to increase as demographic changes in our territory persisted.

Increased net income, strong asset quality in all sectors of the loan portfolio, another year of increased patronage, and diversity on the Board were additional highlights for the association in 2019.

We are very pleased to report that 2019 saw the first female director in the history of Legacy Ag Credit. Cheryl Scott was appointed as an outside director in September 2019. She is a certified public accountant and an accounting instructor at Texas A&M University-Commerce. She is already an integral part of Legacy's operations as chair of Legacy's Audit Committee. Cheryl and her family live in Legacy's territory in the Miller Grove community. We hope you get the opportunity to meet Cheryl at one of our customer appreciation events this year.

In financial highlights, total assets were $289.0 million at December 31, 2019, compared to $268.8 million at December 31, 2018, a $20.2 million or 7.5% increase. Net loans outstanding totaled $280.4 million at December 31, 2019, compared to $262.0 million at December 31, 2018, an $18.4 million or 7.0% increase. Net income was $4.0 million for 2019, compared to $3.9 million for 2018. Member's equity was $61.0 million or 21.1% of total assets at December 31, 2019, compared to $59.3 million or 22.1% of total assets at December 31, 2018. At December 31, 2019, approximately 98.7% of the association's loans were considered acceptable credit quality, compared to 99.2% at December 31, 2018.

We are pleased to announce that, based on our 2019 earnings, the Board of Directors has declared a cash patronage of $2.4 million, approximately 60% of 2019 net income. With this patronage payment, the association will have returned more than $11.4 million to our members over the previous five years. The patronage payment, which is based on each member's relative profitability to the association, will be paid to eligible stockholders in April 2020, and represents a return of approximately 1.00% of the average member's outstanding 2019 loan balance.

We are also pleased to report that the Board and management have established aggressive goals for 2020 and beyond.

By the time you read this letter, we expect to have our new office locations in Terrell and Longview completed and open for business. We are excited about these new locations and the opportunity to reach additional customers in those areas of our territory. Look for additional announcements on our website, social media, and mail about grand opening celebrations for these two offices.

We are also very pleased to announce that we have established a Legacy Ag Credit Scholarship Committee. The Committee expects to award approximately $20,000 in scholarships in 2020 to deserving high school seniors that intend to pursue an agriculture related secondary level education. Look for additional information about this program on our website and social media as well as at local high schools across our entire territory.

In addition, we are extremely pleased to announce a secondary market rural home loan program. We believe the ability to offer our existing and prospective customers competitive secondary market home loan rates is an integral part of our future mission and success.

We want to personally extend an invitation and encourage each of you to attend our annual stockholder meeting to be held on April 15, 2020, at 1:00 pm at our main office located at 303 Connally in Sulphur Springs. We would also like to encourage you to look for information about our 2020 customer appreciation events. Our 2019 events were a huge success, and if you were not able to attend one, you missed a fun time, a great meal, and the opportunity to meet other Legacy stockholders. We look forward to seeing you in 2020.

Finally, we would like to thank you for your continued support of Legacy. We believe that working cooperatively together, we can continue to fulfill Legacy's mission to be a leading agricultural and rural lender throughout its territory and enhance the quality of life for people in the agricultural industry and rural America.

"Financing Your Legacy"

Terry Milligan
Chairman of the Board

Derrell W. Chapman, CPA
Chief Executive Officer

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REPORT OF MANAGEMENT

The consolidated financial statements of Legacy Ag Credit, ACA (association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. 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 solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The association is also examined by the Farm Credit Administration.

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

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

Derrell Chapman, CPA, Chief Executive Officer
March 9, 2020

Terry Milligan, Chairman, Board of Directors
March 9, 2020

Daryl D. Belt, Chief Financial Officer
March 9, 2020

Cheryl Scott, CPA, Chairman, Audit Committee
March 9, 2020

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of Cheryl Scott, Terry Milligan, Cody Newman and Randy Reeves from the board of directors of Legacy Ag Credit, ACA. In 2019, 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 (PwC) for 2019.

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. PwC 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, 2019 (audited consolidated financial statements) with management and PwC. The committee also reviews with PwC the matters required to be discussed by authoritative guidance "The Auditor's Communication With Those Charged With Governance," and both PwC's and Legacy Ag Credit, ACA's internal auditors directly provide reports on significant matters to the committee.

The committee discussed with PwC its independence from Legacy Ag Credit, ACA. The committee also reviewed the nonaudit services provided by PwC and concluded that these services were not incompatible with maintaining the independent accountant's independence. The committee has discussed with management and PwC 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, 2019.

Audit Committee Members

Cheryl Scott, CPA, Chairman
Terry Milligan
Cody Newman
Randy Reeves

March 9, 2020

LEGACY AG CREDIT, ACA

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

	2019	2018	2017	2016	2015
Balance Sheet Data					
Assets					
Cash	**$ 126**	$ 127	$ 105	$ 122	$ 105
Loans	**281,657**	263,318	246,433	238,026	231,972
Less: allowance for loan losses	**1,245**	1,312	1,303	2,081	2,358
Net loans	**280,412**	262,006	245,130	235,945	229,614
Investment in and receivable from the Farm Credit Bank of Texas	**4,562**	4,442	3,894	3,819	3,588
Other property owned, net	**-**	49	-	222	174
Other assets	**3,887**	2,198	1,931	1,935	1,734
Total assets	**$ 288,987**	$ 268,822	$ 251,060	$ 242,043	$ 235,215
Liabilities					
Obligations with maturities of one year or less	**$ 1,717**	$ 1,403	$ 3,485	$ 1,439	$ 1,285
Obligations with maturities greater than one year	**226,308**	208,102	192,116	184,010	178,965
Total liabilities	**228,025**	209,505	195,601	185,449	180,250
Members' Equity					
Capital stock and participation certificates	**1,079**	1,075	1,107	1,112	1,101
Unallocated retained earnings	**59,857**	58,183	54,313	55,405	53,771
Accumulated other comprehensive income (loss)	**26**	59	39	77	93
Total members' equity	**60,962**	59,317	55,459	56,594	54,965
Total liabilities and members' equity	**$ 288,987**	$ 268,822	$ 251,060	$ 242,043	$ 235,215
Statement of Income Data					
Net interest income	**$ 8,108**	$ 7,862	$ 7,556	$ 7,526	$ 7,718
(Provision for loan losses) or loan loss reversal	**61**	165	201	272	701
Income from the Farm Credit Bank of Texas	**1,129**	980	811	850	813
Other noninterest income	**286**	381	363	280	193
Noninterest expense	**(5,610)**	(5,519)	(5,523)	(5,044)	(4,911)
Net income (loss)	**$ 3,974**	$ 3,869	$ 3,408	$ 3,884	$ 4,514
Key Financial Ratios for the Year					
Return on average assets	**1.4%**	1.47%	1.4%	1.6%	1.97%
Return on average members' equity	**6.7%**	6.7%	6.0%	7.1%	8.5%
Net interest income as a percentage of average earning assets	**2.9%**	3.0%	3.2%	3.1%	3.4%
Net charge-offs (recoveries) as a percentage of average loans	**0.002%**	-0.07%	0.2%	0.002%	-0.01%

LEGACY AG CREDIT, ACA

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

	2019	2018	2017	2016	2015
Key Financial Ratios at Year End *					
Members' equity as a percentage of total assets	**21.1%**	22.1%	22.1%	23.4%	23.4%
Debt as a percentage of members' equity	**374.0%**	353.2%	352.7%	327.7%	327.9%
Allowance for loan losses as a percentage of loans	**0.4%**	0.5%	0.5%	0.9%	1.0%
Common equity tier 1 ratio	**21.4%**	21.8%	22.8%	n/a	n/a
Tier 1 capital ratio	**21.4%**	21.8%	22.8%	n/a	n/a
Total capital ratio	**21.9%**	22.3%	23.6%	n/a	n/a
Permanent capital ratio	**21.5%**	21.9%	23.0%	22.8%	23.0%
Tier 1 leverage ratio	**19.7%**	20.5%	21.7%	n/a	n/a
UREE leverage ratio	**20.8%**	21.4%	22.8%	n/a	n/a
Total surplus ratio	**n/a**	n/a	n/a	22.4%	22.5%
Core surplus ratio	**n/a**	n/a	n/a	22.4%	22.5%
Net Income Distribution					
Cash patronage paid	**$ 2,300**	$ 2,100	$ 2,400	$ 2,250	$ 1,600

*Effective January 1, 2017, the new regulatory capital ratios were implemented by the association. The association's ratios remained well above the regulatory minimums, including the conservation and leverage buffers at December 31, 2019. For more information, see Note 9 in the accompanying financial statements, "Members Equity" included in this annual report.

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

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Legacy Ag Credit, ACA, including its wholly-owned subsidiaries, Legacy, PCA and Legacy Land Bank, FLCA (association) for the years ended December 31, 2019, 2018 and 2017, 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 the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government and government-sponsored enterprises; and
- actions taken by the Federal Reserve System in implementing monetary policy.

Significant Events:

Patronage Refunds Received From FCBT:

In December 2019, the association received a direct loan patronage of $1,006,677 from the bank, representing 46.4 basis points on the average daily balance of the association's direct loan with the bank. During 2019, the association received $122,399 in patronage payments from the bank, based on the association's stock investment in the bank.

The board of directors and management remain committed to maintaining the financial integrity of the association while offering competitive loan products that meet the financial needs of agricultural producers.

Patronage Refunds By Association:

In January 2020, the board of directors approved a patronage payment of $2,365,000 related to 2019 earnings which will be paid in April 2020.

In February 2019, the board of directors approved a patronage payment of $2,300,000 related to 2018 earnings which was paid in April 2019.

In February 2018, the board of directors approved a patronage payment of $2,100,000 related to 2017 earnings which was paid in April 2018.

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, London Inter-Bank Offered Rate
(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 $281,657,383, $263,318,709 and $246,432,546 as of December 31, 2019, 2018 and 2017, 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 2019, 2018 and 2017, the association was participating in loans with other lenders. As of December 31, 2019, 2018 and 2017, these participations totaled $41,654,380, $36,265,612 and $37,018,074, or 14.8 percent, 13.8 percent and 15.0 percent of loans, respectively. The association has also sold participations of $378,537, $395,826 and $0 as of December 31, 2019, 2018 and 2017, 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:

	2019		2018		2017	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual	**$ 3,195,559**	**54.3%**	$ 1,376,052	31.8%	$ 1,932,653	39.1%
Formally restructured	**2,689,986**	**45.7%**	2,899,964	67.1%	3,005,558	60.9%
Other property owned, net	**-**	**0.0%**	49,290	1.1%	-	0.0%
Total	**$ 5,885,545**	**100.0%**	$ 4,325,306	100.0%	$ 4,938,211	100.0%

At December 31, 2019, 2018 and 2017, loans that were considered impaired were $5,885,545, $4,276,016 and $4,938,211, representing 2.1 percent, 1.6 percent and 2.0 percent of loan volume, respectively. Impaired loans consist of all high-risk assets, except other property owned, net.

At December 31, 2019, the association held no acquire property. There was one sale during 2019 that resulted in a gain of $8,724.

At December 31, 2018, other property owned consisted of one property. The property is 10 acres of bare land. The fair value of the property is $54,000 with a net book balance of $49,290. Net operating expenses incurred on other property owned were $88,046. During 2018, there were two sales of other property owned that resulted in a net gain of $36,028.

The association held no properties classified as other property owned at December 31, 2017.

Except for the relationship between installment due date and seasonal cash-flow capabilities of the borrower, the association is not affected by any seasonal characteristics. The factors affecting the operations of the association are the same factors that would affect any agricultural 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:

		2019		2018		2017
Allowance for loan losses	**$**	**1,245,333**	$	1,312,470	$	1,302,631
Allowance for loan losses to total loans		**0.4%**		0.5%		0.5%
Allowance for loan losses to nonaccrual loans		**39.0%**		95.4%		67.4%
Allowance for loan losses to impaired loans		**21.2%**		30.7%		26.4%
Net charge-offs to average loans		**0.002%**		-0.07%		0.2%

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

Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of $1,245,333, $1,312,470 and $1,302,631 at December 31, 2019, 2018 and 2017, 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, 2019, was $3,974,236 as compared to $3,869,134 for the year ended December 31, 2018, reflecting an increase of $105,102, or 2.7 percent. The association's net income for the year ended December 31, 2017 was $3,408,207. Net income increased $460,927, or 13.5 percent, in 2018 versus 2017.

Net interest income for 2019, 2018 and 2017 was $8,107,873, $7,862,079 and $7,555,955, respectively, reflecting increases of $245,794, or 3.1 percent, for 2019 versus 2018 and $306,124, or 4.1 percent, for 2018 versus 2017. 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:

	2019		2018		2017	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 271,724,850**	**$ 14,826,124**	$ 257,175,120	$ 13,618,656	$ 238,944,318	$ 12,071,271
Interest-bearing liabilities	**217,297,015**	**6,718,251**	203,023,250	5,756,577	185,285,597	4,515,316
Impact of capital	**$ 54,427,835**		$ 54,151,870		$ 53,658,721	
Net interest income		**$ 8,107,873**		$ 7,862,079		$ 7,555,955

	2019 Average Yield	2018 Average Yield	2017 Average Yield
Yield on loans	**5.46%**	5.30%	5.05%
Cost of interest-bearing liabilities	**3.09%**	2.84%	2.44%
Interest rate spread	**2.36%**	2.46%	2.61%

	2019 vs. 2018			2018 vs. 2017		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income - loans	**$ 770,481**	**$ 436,987**	**$ 1,207,468**	$ 921,002	$ 626,383	$ 1,547,385
Interest expense	**404,718**	**556,956**	**961,674**	432,249	809,012	1,241,261
Net interest income	**$ 365,763**	**$ (119,969)**	**$ 245,794**	$ 488,753	$ (182,629)	$ 306,124

Interest income for 2019 increased by $1,207,468, or 8.9 percent, compared to 2018, primarily due to an increase in loan volume as well as an increase in yield on loans. Interest expense for 2019 increased by $961,674, or 16.7 percent, compared to 2018 due to an increase in cost of interest-bearing liabilities as well as an increase in note payable. The interest rate spread decreased by 10 basis points to 2.36 percent in 2019 from 2.46 percent in 2018, primarily because of an increase in yield on loans offset by an increase in the cost of interest-bearing liabilities. The interest rate spread decreased by 15 basis points to 2.46 percent in 2018 from 2.61 percent in 2017, primarily because of the changes in interest income and expense.

Noninterest income for 2019 increased by $54,861, or 4.0 percent, compared to 2018, due to an increase in patronage income and loan fees offset by a reduction in nonrecurring refunds from the Farm Credit System Insurance Corporation. Noninterest income for 2018 increased by $186,379, or 15.9 percent, compared to 2017, due primarily to an increase in patronage received from FCBT as well as a nonrecurring refund from the Farm Credit System Insurance Corporation.

Reversal of loan losses decreased by $104,488, or 63.2 percent, compared to 2018, due primarily to an increase in impaired assets.

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 $91,065, or 1.6 percent, in 2019 compared to 2018 primarily due to an increase in advertising of $37,725 and public and member relations of $56,261 offset by a reduction in expense of other property owned of $86,413. The increase in operating expenses included an increase of $10,453 in premiums to the Insurance Fund, with premium rates of 9 basis points in 2019 and 2018.

For the year ended December 31, 2019, the association's return on average assets was 1.4 percent, as compared to 1.47 percent and 1.4 percent for the years ended December 31, 2018 and 2017, respectively. For the year ended December 31, 2019, the association's return on average members' equity was 6.7 percent, as compared to 6.7 percent and 6.0 percent for the years ended December 31, 2018 and 2017, 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 $225,732,667, $207,561,145 and $191,700,575 as of December 31, 2019, 2018 and 2017, respectively, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 3.09 percent, 2.84 percent and 2.44 percent at December 31, 2019, 2018 and 2017, 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, 2018, is due to the 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 $54,841,828, $54,838,962 and $54,075,456 at December 31, 2019, 2018 and 2017, respectively. The maximum amount the association may borrow from the bank as of December 31, 2019, was $271,538,454 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2020, unless sooner terminated by the bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the bank 120 days' prior written notice.

The liquidity policy of the association is to manage cash balances, to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued during 2020. As borrower payments are received, they are applied to the association's note payable to the bank.

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

Capital Resources:

The association's capital position remains strong, with total members' equity of $60,961,888, $59,316,525 and $55,458,870 at December 31, 2019, 2018 and 2017, respectively.

New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The 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, 2019, 2018 and 2017 was 21.5 percent, 21.9 percent and 23.0 percent, respectively.

Under the new regulations, the association is required to maintain a minimum common equity tier 1 (CET1), tier 1 capital and total capital ratios of 4.5 percent, 6.0 percent and 8.0 percent, along with a capital conservation buffer of 2.5 percent applicable to each ratio, respectively. The 2.5 percent capital conservation buffer will be phased in over a three-year period ending on December 31, 2019. The CET1 capital ratio is an indicator of the institution's highest quality of capital and consists of unallocated retained earnings, qualifying common cooperative equities (CCEs) that meet the required holding periods, and paid-in capital. The association's common equity tier 1 ratio was 21.4 percent 21.8 percent and 22.8 percent at December 31, 2019, 2018 and 2017, respectively. The tier 1 capital ratio is a measure of the institution's quality of capital and financial strength. The tier 1 capital ratio was 21.4 percent 21.8 percent and 22.8 percent at December 31, 2019, 2018 and 2017, respectively. The total capital ratio is supplementary to the tier 1 capital ratio, the components of which include qualifying CCEs subject to certain holding periods, third-party capital subject to certain holding periods and limitations, and allowance and reserve for credit losses subject to certain limitations. Total capital ratio was 21.9 percent 22.3 percent and 23.6 percent at December 31, 2019, 2018 and 2017, respectively.

Under the new regulations, the association is required to maintain a minimum tier 1 leverage ratio of 4.0 percent, along with a leverage buffer of 1.0 percent, and a minimum unallocated retained earnings equivalents (UREE) leverage ratio of 1.5 percent. The tier 1 leverage ratio is used to measure the amount of leverage an institution has incurred against its capital base, of which at least 1.5 percent must be unallocated retained earnings (URE) and URE equivalents. This is the UREE leverage ratio. The association's tier 1 leverage ratio was 19.7, 20.5 and 21.7 percent at December 31, 2019, 2018 and 2017, respectively. The association's UREE leverage ratio was 20.8, 21.4 and 22.8 percent at December 31, 2019, 2018 and 2017, respectively.

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

Significant Recent Accounting Pronouncements:

Refer to Note 2 – "Summary of Significant Accounting Policies" in this annual report for disclosures of recent accounting pronouncements which may impact the association's consolidated financial position and results of operations and for critical accounting policies.

Regulatory Matters:

At December 31, 2019, the association was not under written agreements with the Farm Credit Administration.

On June 12, 2018, the Farm Credit Administration (FCA) published a final rule revising the requirements governing the eligibility of investments for System banks and associations. The stated objectives of the final rule are as follows:

- To strengthen investment practices at System banks and associations to enhance their safety and soundness;
- To ensure that System banks hold sufficient high-quality liquid investments for liquidity purposes;
- To enhance the ability of the System banks to supply credit to agricultural and aquatic producers and their cooperatives in times of financial distress;
- To comply with the requirements of section 939A of the Dodd-Frank Act;
- To modernize the investment eligibility criteria for System banks; and
- To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

The regulation became effective January 1, 2019.

On June 15, 2018, the FCA published a proposed rule to amend its regulations governing standards of conduct of directors and employees of System institutions and require every System bank and association to have a Standards of Conduct Program based on core principles to put into effect ethical values as part of corporate culture. The stated objectives of the proposed rule are to:

- Establish principles for ethical conduct and recognize each System institution's responsibility for promoting an ethical culture;
- Provide each System institution flexibility to develop specific guidelines on acceptable practices suitable for its business;
- Encourage each System institution to foster core ethical values and conduct as part of its corporate culture;
- Require each System institution to develop strategies and a system of internal controls to promote institution and individual accountability in ethical conduct, including by establishing a Standards of Conduct Program and adopting a Code of Ethics; and
- Remove prescriptive requirements of the regulations that do not promote these objectives.

The deadline for the submission of public comments was September 13, 2018.

On August 24, 2018, the FCA published for public comment a proposed rule that would modify the existing outside director eligibility criteria to accomplish the following objectives:

- Amend the eligibility criteria for outside directors in § 611.220(a);
- Remove the definition of outside director in § 619.9225;
- Strengthen the safety and soundness of System institutions; and
- Incorporate best practices for corporate governance for System institutions.

The proposed regulation would expand the list of persons who would be excluded from nomination for an outside director's seat to ensure the independence of outside directors. The list would include borrowers of the institution, immediate family members of any director, officer, employee, agent, stockholder or borrower of any System institution, and anyone who has a controlling interest in an entity that borrows from any System institution or any affiliated organization of a System institution. The deadline for the submission of public comments was October 23, 2018.

On January 22, 2019, the Farm Credit Administration issued an information memorandum citing the fact that effective December 20, 2018, the Agriculture Improvement Act of 2018 repealed the limitations on bank director compensation contained in section 4.21 of the Farm Credit Act of 1971, as amended. As a result, beginning in 2019, the Farm Credit Administration will no longer calculate the maximum annual compensation adjustments in FCA regulation § 611.400(b)(c), but will continue to review System bank director compensation to ensure that pay levels do not adversely affect the safety and soundness of System institutions.

On February 21, 2019, an advance notice of proposed rulemaking on ways to collect, evaluate and report data on the System's service to young, beginning and small (YBS) farmers was published in the Federal Register. The purpose of the advance notice of proposed rulemaking is to gather public input on how FCA might:

- Improve the accuracy, transparency and process by which FCA ensures that YBS farmer data is properly collected and reported by the System;
- Clarify the definitions of terms related to the collection, reporting and identification of YBS farmer data;
- Ensure the definitions of YBS farmers and related terms remain relevant and reflective of the evolving agricultural economy; and
- Evaluate the effectiveness of each System institution's YBS program to achieve its mission of serving YBS farmers.

The comment period ended on May 22, 2019.

On March 19, 2019, an interim final rule on margin and capital requirements for covered swap entities was published in the Federal Register. Five federal agencies acted to ensure that qualifying swaps may be transferred from a United Kingdom (UK) entity to an affiliate in the European Union (EU) or the United States without triggering new margin requirements. The interim final rule adopted would ensure that any legacy swap currently exempt from the agencies' rule on margin for non-cleared swaps would not become subject to the rule if such swap is amended solely for the purpose of transferring it to an affiliate as a result of a non-negotiated UK withdrawal from the EU. The comment period ended on April 18, 2019.

On April 3, 2019, a proposed rule was published in the Federal Register on the criteria for reinstating nonaccrual loans. The objectives of the proposed rule are to:

- Enhance the usefulness of high-risk loan categories;
- Replace the subjective measure of “reasonable doubt” used for reinstating loans to accrual status with a measurable standard;
- Improve the timely recognition of a change in a loan’s status; and
- Update existing terminology and make other grammatical changes.

The comment period ended on June 3, 2019.

On September 18, 2019, a proposed rule was published in the Federal Register to address changes to allow Farm Credit System (FCS or System) associations to purchase and hold the portion of certain loans that non-FCS lenders originate and sell in the secondary market, and that the United States Department of Agriculture (USDA) unconditionally guarantees or insures as to the timely payment of principal and interest. The objectives of the proposed rule are to authorize FCS associations to buy as investments for risk management purposes, portions of certain loans that non-System lenders originate, and the USDA fully guarantees as to principal and interest to:

- Augment the liquidity of rural credit markets;
- Reduce the capital burden on community banks and other non-System lenders who choose to sell their USDA guaranteed portions of loans, so they may extend additional credit in rural areas; and
- Enhance the ability of associations to manage risk.

The comment period ended on November 18, 2019.

On September 23, 2019, a proposed rule was published in the Federal Register to address changes to capital and other regulations, including certain regulatory disclosure requirements, in response to recent changes in the U.S. generally accepted accounting principles (U.S. GAAP). The objectives of the proposed rule are to:

- Ensure that the System's capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology, which revises the accounting for credit losses under U.S. GAAP; and
- Ensure that conforming amendments to other regulations accurately reference credit losses.

The comment period ended on November 22, 2019.

On November 7, 2019, a proposed rule was published in the Federal Register by five federal agencies that would amend the agencies’ regulations that require swap dealers and security-based swap dealers under the agencies’ respective jurisdictions to exchange margin with their counterparties for swaps that are not centrally cleared (Swap Margin Rule). The Swap Margin Rule, as adopted in 2015, takes effect under a phased compliance schedule spanning from 2016 through 2020, and the dealers covered by the rule continue to hold swaps in their portfolios that were entered into before the effective dates of the rule. Such swaps are grandfathered from the Swap Margin Rule’s requirements until they expire according to their terms. The proposed rule would permit swaps entered into prior to an applicable compliance date (legacy swaps) to retain their legacy status in the event that they are amended to replace an interbank offered rate (IBOR) or other discontinued rate, repeal the inter-affiliate initial margin provisions, introduce an additional compliance date for initial margin requirements, clarify the point in time at which trading documentation must be in place, permit legacy swaps to retain their legacy status in the event that they are amended due to technical amendments, notional reductions, or portfolio compression exercises, and make technical changes to relocate the provision addressing amendments to legacy swaps that are made to comply with the Qualified Financial Contract Rules, as defined in the Supplementary Information section.

The comment period ended on December 9, 2019.

In 2019, 2018 and 2017, the association paid patronage of $2,299,643, $2,100,022 and $2,399,984, respectively. 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 9 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The bank provides computer systems to support the critical operations of all district associations. In addition, each association has operating systems and facility-based systems that are not supported by the bank. As disclosed in Note 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, which comprise the consolidated balance sheets as of December 31, 2019, December 31, 2018, and December 31, 2017, 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 Company'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 Company'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 and its subsidiaries as of December 31, 2019, December 31, 2018, and December 31, 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 9, 2020

PricewaterhouseCoopers LLP, 835 West 6th Street, Suite 1600 Austin, TX 78703
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LEGACY AG CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	December 31, 2019	December 31, 2018	December 31, 2017
Assets			
Cash	**$ 125,999**	$ 126,946	$ 104,733
Loans	**281,657,383**	263,318,709	246,432,546
Less: allowance for loan losses	**1,245,333**	1,312,470	1,302,631
Net loans	**280,412,050**	262,006,239	245,129,915
Accrued interest receivable	**1,520,871**	1,284,169	1,129,861
Investment in and receivable from the Farm Credit Bank of Texas:			
Capital stock	**4,313,130**	4,029,425	3,695,075
Other	**248,698**	412,621	199,386
Other property owned, net	**-**	49,290	-
Premises and equipment	**2,195,177**	752,579	636,280
Other assets	**171,453**	160,833	165,157
Total assets	**$ 288,987,378**	$ 268,822,102	$ 251,060,407
Liabilities			
Note payable to the Farm Credit Bank of Texas	**$ 225,732,667**	$ 207,561,145	$ 191,700,575
Advance conditional payments	**1,690**	10,007	30,594
Accrued interest payable	**575,828**	546,755	416,552
Drafts outstanding	**285,122**	47,964	5,095
Patronage distributions payable	**-**	-	2,100,000
Other liabilities	**1,430,183**	1,339,706	1,348,721
Total liabilities	**228,025,490**	209,505,577	195,601,537
Members' Equity			
Capital stock and participation certificates	**1,078,665**	1,074,840	1,106,505
Unallocated retained earnings	**59,857,139**	58,182,546	54,313,434
Accumulated other comprehensive income (loss)	**26,084**	59,139	38,931
Total members' equity	**60,961,888**	59,316,525	55,458,870
Total liabilities and members' equity	**$ 288,987,378**	$ 268,822,102	$ 251,060,407

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,		
	2019	2018	2017
Interest Income			
Loans	$ **14,826,124**	$ 13,618,656	$ 12,071,271
Interest Expense			
Note payable to the Farm Credit Bank of Texas	**6,718,205**	5,756,525	4,515,304
Advance conditional payments	**46**	52	12
Total interest expense	**6,718,251**	5,756,577	4,515,316
Net interest income	**8,107,873**	7,862,079	7,555,955
Reversal of Loan Losses	**(60,777)**	(165,265)	(201,336)
Net interest income after provision for losses	**8,168,650**	8,027,344	7,757,291
Noninterest Income			
Income from the Farm Credit Bank of Texas:			
Patronage income	**1,129,076**	979,573	810,565
Loan fees	**139,427**	78,544	274,045
Refunds from Farm Credit System Insurance Corporation	**46,063**	135,518	-
Financially related services income	**285**	341	404
Gain on sale of other property owned, net	**8,724**	36,028	1,715
Gain on sale of premises and equipment, net	**16,428**	32,973	27,985
Gain on other assets	**-**	-	31,412
Other noninterest income	**75,215**	97,380	27,852
Total noninterest income	**1,415,218**	1,360,357	1,173,978
Noninterest Expenses			
Salaries and employee benefits	**3,511,667**	3,460,902	3,044,660
Directors' expense	**204,638**	192,226	291,397
Purchased services	**436,669**	473,155	853,203
Travel	**295,929**	242,570	195,078
Occupancy and equipment	**279,055**	236,990	273,293
Communications	**90,552**	122,518	139,426
Advertising	**130,628**	92,903	49,671
Public and member relations	**168,918**	112,657	125,515
Supervisory and exam expense	**114,931**	114,849	105,211
Insurance Fund premiums	**213,992**	203,539	283,569
Provision for other property owned	**-**	72,217	-
Loss on other property owned, net	**1,633**	15,829	21,092
Other components of net periodic postretirement benefit cost	**6,940**	3,473	(1,251)
Other noninterest expense	**154,080**	174,739	142,198
Total noninterest expenses	**5,609,632**	5,518,567	5,523,062
NET INCOME	**3,974,236**	3,869,134	3,408,207
Other comprehensive income:			
Change in postretirement benefit plans	**(33,055)**	20,208	(37,543)
COMPREHENSIVE INCOME	$ **3,941,181**	$ 3,889,342	$ 3,370,664

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, 2016	$ 1,112,315	$ 55,405,211	$ 76,474	$ 56,594,000
Comprehensive income	-	3,408,207	(37,543)	3,370,664
Capital stock/participation certificates and allocated retained earnings issued	140,330	-	-	140,330
Capital stock/participation certificates and allocated retained earnings retired	(146,140)	-	-	(146,140)
Patronage paid	-	(2,399,984)	-	(2,399,984)
Patronage accrual	-	(2,100,000)	-	(2,100,000)
Balance at December 31, 2017	1,106,505	54,313,434	38,931	55,458,870
Comprehensive income	-	3,869,134	20,208	3,889,342
Capital stock/participation certificates issued	123,610	-	-	123,610
Capital stock/participation certificates and allocated retained earnings retired	(155,275)	-	-	(155,275)
Patronage paid	-	(22)	-	(22)
Balance at December 31, 2018	1,074,840	58,182,546	59,139	59,316,525
Comprehensive income	-	3,974,236	(33,055)	3,941,181
Capital stock/participation certificates issued	140,555	-	-	140,555
Capital stock/participation certificates and allocated retained earnings retired	(136,730)	-	-	(136,730)
Patronage paid		(2,299,643)	-	(2,299,643)
Balance at December 31, 2019	**$ 1,078,665**	**$ 59,857,139**	**$ 26,084**	**$ 60,961,888**

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,		
	2019	2018	2017
Cash flows from operating activities:			
Net income	**$ 3,974,236**	$ 3,869,134	$ 3,408,207
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses or (loan loss reversal)	**(60,777)**	(165,265)	(201,336)
Provision for other property owned	**-**	72,217	-
Gain on sale of other property owned, net	**(8,724)**	(36,028)	(1,715)
Gain on other assets	**-**	-	(31,412)
Depreciation and amortization	**261,244**	207,628	138,943
Gain on sale of premises and equipment, net	**(16,428)**	(32,973)	(27,985)
Increase in accrued interest receivable	**(236,702)**	(154,308)	(18,633)
Decrease (increase) in other receivables from the Farm Credit Bank of Texas	**163,923**	(213,235)	(118,503)
(Increase) decrease in other assets	**(10,620)**	4,324	204,902
Increase in accrued interest payable	**29,073**	130,203	58,638
Increase in other liabilities	**57,422**	11,193	74,293
Net cash provided by operating activities	**4,152,647**	3,692,890	3,485,399
Cash flows from investing activities:			
Increase in loans, net	**(18,511,269)**	(17,452,978)	(9,096,226)
Cash recoveries of loans previously charged off	**74,253**	175,104	24,476
Proceeds from (purchase) redemption of investment in the Farm Credit Bank of Texas	**(283,705)**	(334,350)	43,430
Purchases of premises and equipment	**(1,663,592)**	(279,545)	(266,047)
Proceeds from sales of premises and equipment	**68,160**	60,250	58,999
Proceeds from sales of other property owned	**58,014**	409,677	256,724
Net cash used in investing activities	**$ (20,258,139)**	$ (17,421,842)	$ (8,978,644)

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,		
	2019	2018	2017
Cash flows from financing activities:			
Net draws on note payable to the Farm Credit Bank of Texas	**$ 18,171,522**	$ 15,860,570	$ 8,048,644
Increase (decrease) in drafts outstanding	**237,158**	42,869	(195,914)
(Decrease) increase in advance conditional payments	**(8,317)**	(20,587)	29,322
Issuance of capital stock and participation certificates	**140,555**	123,610	140,330
Retirement of capital stock and participation certificates	**(136,730)**	(155,275)	(146,140)
Cash patronage paid	**(2,299,643)**	(2,100,022)	(2,399,984)
Net cash provided by financing activities	**16,104,545**	13,751,165	5,476,258
Net (decrease) increase in cash	**(947)**	22,213	(16,987)
Cash at the beginning of the year	**126,946**	104,733	121,720
Cash at the end of the year	**$ 125,999**	$ 126,946	$ 104,733
Supplemental schedule of noncash investing and financing activities:			
Loans transferred to other property owned	**-**	495,154	33,285
Loans charged off	**80,613**	-	601,457
Supplemental cash information:			
Cash paid during the year for:			
Interest	**$ 6,689,178**	$ 5,726,374	$ 4,456,678

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 that 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, 2019, 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, 2019, 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 Annual Report to Stockholders.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation and Consolidation

The consolidated financial statements (the "financial statements") of the association have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). In consolidation, all significant intercompany accounts and transactions are eliminated and all material wholly-owned and majority-owned subsidiaries are consolidated unless GAAP requires otherwise.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses; the valuation of deferred tax assets; the determination of fair value of financial instruments and subsequent impairment analysis.

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 August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the association's financial condition or its results of operations, but will impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The adoption of this guidance will not impact the association's financial condition or its results of operations, but will impact the fair value measurements disclosures. The association early adopted the removal and modified disclosures during the fourth quarter of 2018.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers, this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The institution qualifies for the delay in the adoption date. The association continues to evaluate the impact of adoption on the association's financial condition and its 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 became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance did not materially impact the association's financial condition or its results of operations but did impact lease disclosures. The association adopted this guidance January 1, 2019, and upon adoption, there was no adjustment to the balance sheet.

B. Cash: Cash, as included in the financial statements, represents cash on hand and deposits at 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.

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.

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 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 (non-viable) 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 allowances 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.

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.

Transfers of an entire financial asset, group of entire financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the association, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the association does not maintain effective control over the transferred assets.

The association purchases loan and lease participations from other System and non-System entities to generate additional earnings and diversify risk related to existing commodities financed and the geographic area served. Additionally, the association sells a portion of certain large loans to other System and non-System entities to reduce risk and comply with established lending limits. Loans are sold and the sale terms comply with requirements under ASC 860 "Transfers and Servicing."

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 and is included in other assets in the consolidated balance sheet. 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, 2019, 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 $145,866, $139,364 and $114,750 for the years ended December 31, 2019, 2018 and 2017 respectively. For the DB plan, the association recognized pension costs of $0 for the years ended December 31, 2019, 2018 and 2017, 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 $113,788, $109,413 and $88,524 for the years ended December 31, 2019, 2018 and 2017, 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 on the consolidated balance sheet. 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 the 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:

	2019		2018		2017	
Loan Type	**Amount**	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 230,619,494**	**81.9%**	$ 217,039,403	82.4%	$ 197,323,124	80.1%
Production and						
intermediate term	**12,777,483**	**4.5%**	12,678,345	4.8%	12,447,990	5.0%
Agribusiness:						
Loans to cooperatives	**2,322,849**	**0.8%**	1,935,072	0.7%	1,673,345	0.7%
Processing and marketing	**18,519,930**	**6.6%**	18,082,298	6.9%	20,123,055	8.2%
Farm-related business	**555,171**	**0.2%**	703,844	0.3%	761,706	0.3%
Communication	**7,031,161**	**2.5%**	2,885,865	1.1%	3,757,372	1.5%
Energy	**4,437,817**	**1.6%**	4,102,815	1.6%	4,369,376	1.8%
Water and waste water	**1,996,090**	**0.7%**	1,995,244	0.7%	1,994,398	0.8%
Rural residential real estate	**3,397,388**	**1.2%**	3,895,823	1.5%	3,982,180	1.6%
Total	**$ 281,657,383**	**100.0%**	$ 263,318,709	100.0%	$ 246,432,546	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, 2019:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ -	$ 378,537	$ -	$ -	$ -	$ 378,537
Production and intermediate term	6,791,362	-	-	-	6,791,362	-
Agribusiness	21,397,950	-	-	-	21,397,950	-
Communication	7,031,161	-	-	-	7,031,161	-
Energy	4,437,817	-	-	-	4,437,817	-
Water and waste water	1,996,090	-	-	-	1,996,090	-
Total	$ 41,654,380	$ 378,537	$ -	$ -	$ 41,654,380	$ 378,537

Geographic Distribution:

County	2019	2018	2017
Hopkins	**12.5%**	13.0%	13.9%
Van Zandt	**12.1%**	13.8%	14.9%
Wood	**10.8%**	9.6%	7.9%
Kaufman	**7.9%**	8.9%	10.2%
Upshur	**6.5%**	6.1%	6.7%
Harrison	**3.8%**	4.7%	5.7%
Franklin	**3.5%**	4.1%	3.7%
Rains	**1.9%**	1.7%	1.3%
Marion	**1.8%**	1.9%	2.2%
Gregg	**0.5%**	0.6%	0.7%
Other	**38.7%**	35.6%	32.8%
Totals	**100.0%**	**100.0%**	**100.0%**

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

	2019		2018		2017	
Operation/Commodity	**Amount**	**%**	Amount	%	Amount	%
Livestock, except dairy and poultry	**$ 75,275,252**	**26.8%**	$ 75,361,055	28.6%	$ 76,438,682	31.0%
Poultry and eggs	**74,336,316**	**26.4%**	56,932,615	21.6%	38,288,867	15.5%
Field crops, except cash grains	**42,219,589**	**15.0%**	43,860,113	16.6%	44,558,583	18.1%
Timber	**19,290,186**	**6.8%**	19,882,098	7.6%	19,370,236	7.9%
Hunting, trapping and game propagation	**15,202,265**	**5.4%**	14,312,280	5.4%	11,421,198	4.6%
Food and kindred products	**9,213,317**	**3.3%**	9,348,463	3.6%	10,287,649	4.2%
Communication	**7,031,161**	**2.5%**	2,885,865	1.1%	3,757,372	1.5%
Wholesale trade - nondurable goods	**6,548,466**	**2.3%**	6,380,561	2.4%	6,954,123	2.8%
Real estate	**5,096,766**	**1.8%**	5,364,077	2.0%	6,028,927	2.4%
Rural home loans	**4,741,224**	**1.7%**	5,501,960	2.1%	4,942,061	2.0%
Electric services	**4,437,817**	**1.6%**	4,102,815	1.6%	4,369,376	1.8%
Animal specialties	**3,804,941**	**1.4%**	4,792,734	1.8%	5,152,607	2.1%
Paper and allied products	**3,184,791**	**1.1%**	1,925,703	0.7%	2,589,216	1.1%
Fruit and tree nuts	**2,720,597**	**1.0%**	2,489,271	0.9%	330,805	0.1%
Dairy farms	**2,424,840**	**0.9%**	3,023,773	1.1%	5,154,836	2.1%
Water supply	**1,996,090**	**0.7%**	1,995,244	0.8%	1,994,398	0.8%
Chemical and allied products	**1,878,654**	**0.7%**	2,295,730	0.9%	2,393,247	1.0%
Metal cans	**1,170,913**	**0.4%**	1,223,934	0.5%	848,277	0.3%
Agricultural services	**294,861**	**0.1%**	325,729	0.1%	576,379	0.2%
General farms, primarily livestock	**282,278**	**0.1%**	290,943	0.1%	41,607	0.0%
Vegetables and melons	**138,065**	**0.0%**	160,735	0.1%	182,412	0.1%
Building materials, hardware and garden supplies	**135,818**	**0.0%**	143,044	0.1%	18,894	0.0%
Horticultural specialties	**134,126**	**0.0%**	144,086	0.1%	153,260	0.1%
Health services	**52,928**	**0.0%**	58,380	0.0%	-	0.0%
General farms, primarily crops	**46,123**	**0.0%**	96,422	0.0%	142,464	0.1%
Trucking and courier services, except air	**-**	**0.0%**	421,079	0.2%	427,617	0.2%
Farm and garden machinery equipment	**-**	**0.0%**	-	0.0%	9,453	0.0%
Total	**$ 281,657,384**	**100.0%**	$ 263,318,709	100.0%	$ 246,432,546	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.

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

The following table presents information relating to impaired loans as of December 31, respectively:

	2019	2018	2017
Nonaccrual Loans:			
Current as to principal and interest	**$ 2,751,641**	$ 1,076,888	$ 539,952
Past Due	**443,918**	299,164	1,392,701
Total nonaccrual loans	**3,195,559**	1,376,052	1,932,653
Impaired Accrual Loans:			
Restructured accrual loans	**2,689,986**	2,899,964	3,005,558
Accrual loans 90 days or more past due	**-**	-	-
Total impaired accrual loans	**2,689,986**	2,899,964	3,005,558
Total impaired loans	**$ 5,885,545**	$ 4,276,016	$ 4,938,211

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

	December 31, 2019	December 31, 2018	December 31, 2017
Nonaccrual loans:			
Real estate mortgage	**$ 2,403,445**	$ 1,146,265	$ 1,210,053
Production and intermediate term	**792,114**	229,787	722,600
Total nonaccrual loans	**3,195,559**	1,376,052	1,932,653
Accruing restructured loans:			
Real estate mortgage	**2,689,986**	2,899,964	3,005,558
Total accruing restructured loans	**2,689,986**	2,899,964	3,005,558
Total nonperforming loans	**5,885,545**	4,276,016	4,938,211
Other property owned	**-**	49,290	-
Total nonperforming assets	**$ 5,885,545**	$ 4,325,306	$ 4,938,211

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:

	2019	2018	2017
Real estate mortgage			
Acceptable	**95.6** %	97.8 %	97.8 %
OAEM	**3.1**	1.3	1.2
Substandard/doubtful	**1.3**	0.9	1.0
	100.0	100.0	100.0
Production and intermediate term			
Acceptable	**90.8**	95.5	94.2
OAEM	**3.0**	2.7	-
Substandard/doubtful	**6.2**	1.8	5.8
	100.0	100.0	100.0
Loans to cooperatives			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Processing and marketing			
Acceptable	**86.8**	100.0	100.0
OAEM	**13.2**	-	-
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	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Water and waste water			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Rural residential real estate			
Acceptable	**99.5**	99.5	99.5
OAEM	**0.5**	0.5	0.5
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Total Loans			
Acceptable	**95.1**	98.0	98.0
OAEM	**3.6**	1.2	0.9
Substandard/doubtful	**1.3**	0.8	1.1
	100.0 %	100.0 %	100.0 %

The following tables provide an aging analysis of past due loans (including accrued interest) as of December 31, 2019, 2018 and 2017:

December 31, 2019:	**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	**$ 1,065,699**	**$ 232,223**	**$ 1,297,922**	**$ 230,532,545**	**$ 231,830,467**	**$ -**
Production and intermediate term	**-**	**-**	**-**	**12,991,365**	**12,991,365**	**-**
Loans to cooperatives	**-**	**-**	**-**	**2,330,174**	**2,330,174**	**-**
Processing and marketing	**-**	**-**	**-**	**18,554,264**	**18,554,264**	**-**
Farm-related business	**-**	**-**	**-**	**555,829**	**555,829**	**-**
Communication	**-**	**-**	**-**	**7,031,650**	**7,031,650**	**-**
Energy	**-**	**-**	**-**	**4,450,029**	**4,450,029**	**-**
Water and waste water	**-**	**-**	**-**	**2,026,313**	**2,026,313**	**-**
Rural residential real estate	**-**	**-**	**-**	**3,408,163**	**3,408,163**	**-**
Total	**$ 1,065,699**	**$ 232,223**	**$ 1,297,922**	**$ 281,880,332**	**$ 283,178,254**	**$ -**

December 31, 2018:	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	$ 1,132,372	$ -	$ 1,132,372	$ 216,979,649	$ 218,112,021	$ -
Production and intermediate term	222,595	-	222,595	12,596,315	12,818,910	-
Loans to cooperatives	-	-	-	1,941,592.39	1,941,592	-
Processing and marketing	-	-	-	18,095,013	18,095,013	-
Farm-related business	-	-	-	705,252	705,252	-
Communication	-	-	-	2,885,997	2,885,997	-
Energy	56,913	-	56,913	4,058,004	4,114,917	-
Water and waste water	-	-	-	2,025,466	2,025,466	-
Rural residential real estate	-	-	-	3,903,710	3,903,710	-
Total	$ 1,411,880	$ -	$ 1,411,880	$ 263,190,998	$ 264,602,878	$ -

December 31, 2017:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 481,064	$ 514,049	$ 995,113	$ 197,253,775	$ 198,248,888	$ -
Production and intermediate term	820,465	11,833	832,298	11,743,555	12,575,853	-
Loans to cooperatives	-	-	-	1,673,982	1,673,982	-
Processing and marketing	-	-	-	20,141,873	20,141,873	-
Farm-related business	-	-	-	762,679	762,679	-
Communication	-	-	-	3,765,705	3,765,705	-
Energy	-	-	-	4,380,561	4,380,561	-
Water and waste water	-	-	-	2,024,620	2,024,620	-
Rural residential real estate	-	-	-	3,988,246	3,988,246	-
Total	$ 1,301,529	$ 525,882	$ 1,827,411	$ 245,734,996	$ 247,562,407	$ -

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, 2019, the total recorded investment of troubled debt restructured loans was $3,954,008, including $1,264,022 classified as nonaccrual and $2,689,986 classified as accrual, with specific allowance for loan losses of $0. The specific allowance is determined quarterly through a net realizable value analysis for each individual loan asset. As of December 31, 2019, 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, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the years ended December 31, 2019, 2018 and 2017.

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 on loan modifications for the year ending December 31, 2019.

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.

There were no 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.

There were no additional commitments to lend to borrowers whose loans have been modified in TDRs at December 31, 2019, 2018 and 2017.

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, 2019	December 31, 2018	December 31, 2017
Troubled debt restructurings:			
Real estate mortgage	**$ 3,165,362**	$ 3,041,055	$ 3,157,345
Production and intermediate term	**788,646**	-	24,538
Total	**$ 3,954,008**	$ 3,041,055	$ 3,181,883

	TDRs on Nonaccrual Status*		
	December 31, 2019	December 31, 2018	December 31, 2017
Troubled debt restructurings:			
Real estate mortgage	**$ -**	$ 141,091	$ 151,788
Production and intermediate term	**-**	-	24,538
Total	**$ -**	$ 141,091	$ 176,326

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

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/2019	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 603,307	$ 603,307	$ 24,465	$ 41,219	$ -
Production and intermediate term	789,659	789,659	402,637	51,819	31,645
Total	$ 1,392,966	$ 1,392,966	$ 427,102	$ 93,038	$ 31,645
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 4,490,124	$ 4,501,775	$ -	$ 3,696,204	$ 534,145
Production and intermediate term	2,455	796,015	-	375,029	1,063
Total	$ 4,492,579	$ 5,297,790	$ -	$ 4,071,233	$ 535,208
Total impaired loans:					
Real estate mortgage	$ 5,093,431	$ 5,105,082	$ 24,465	$ 3,737,423	$ 534,145
Production and intermediate term	792,114	1,585,674	402,637	426,848	32,708
Total	$ 5,885,545	$ 6,690,756	$ 427,102	$ 4,164,271	$ 566,853

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

	Recorded Investment at 12/31/2018	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 4,046,230	$ 4,051,035	$ -	$ 3,913,822	$ 287,463
Production and intermediate term	229,787	1,029,347	-	161,770	85,247
Total	$ 4,276,017	$ 5,080,382	$ -	$ 4,075,592	$ 372,710
Total impaired loans:					
Real estate mortgage	$ 4,046,230	$ 4,051,035	$ -	$ 3,913,822	$ 287,463
Production and intermediate term	229,787	1,029,347	-	161,770	85,247
Total	$ 4,276,017	$ 5,080,382	$ -	$ 4,075,592	$ 372,710

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

	Recorded Investment at 12/31/2017	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Production and intermediate term	$ 11,833	$ 11,833	$ 1,085	$ 13,153	$ -
Total	$ 11,833	$ 11,833	$ 1,085	$ 13,153	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 4,215,611	$ 4,221,064	$ -	$ 4,344,363	$ 329,063
Production and intermediate term	710,767	1,686,612	-	1,346,349	5,366
Total	$ 4,926,378	$ 5,907,676	$ -	$ 5,690,712	$ 334,429
Total impaired loans:					
Real estate mortgage	$ 4,215,611	$ 4,221,064	$ -	$ 4,344,363	$ 329,063
Production and intermediate term	722,600	1,698,445	1,085	1,359,502	5,366
Total	$ 4,938,211	$ 5,919,509	$ 1,085	$ 5,703,865	$ 334,429

[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, 2019, 2018 and 2017.

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

	2019	2018	2017
Interest income that would have been recognized under the original terms	**$ 671,207**	$ 521,235	$ 496,471
Less: interest income recognized	**(566,853)**	(372,710)	(334,429)
Foregone interest income	**$ 104,354**	$ 148,525	$ 162,042

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, 2018	$ 1,203,155	$ 62,480	$ 29,152	$ 2,112	$ 9,826	$ 1,764	$ 3,981	$ 1,312,470
Charge-offs	(69,153)	(11,460)	-	-	-	-	-	(80,613)
Recoveries	-	74,253	-	-	-	-	-	74,253
Provision for loan losses	(414,680)	335,679	22,285	1,454	(5,392)	(129)	6	(60,777)
Balance at December 31, 2019	$ 719,322	$ 460,952	$ 51,437	$ 3,566	$ 4,434	$ 1,635	$ 3,987	$ 1,245,333
Ending Balance: individually evaluated for impairment	$ 24,465	$ 402,637	$ -	$ -	$ -	$ -	$ -	$ 427,102
Ending Balance: collectively evaluated for impairment	$ 694,857	$ 58,315	$ 51,437	$ 3,566	$ 4,434	$ 1,635	$ 3,987	$ 818,231
Recorded Investment in Loans Outstanding:								
Ending Balance at December 31, 2019	$ 231,830,467	$ 12,991,365	$ 21,440,267	$ 7,031,650	$ 4,450,029	$ 2,026,313	$ 3,408,163	$ 283,178,254
Ending balance for loans individually evaluated for impairment	$ 5,093,431	$ 792,114	$ -	$ -	$ -	$ -	$ -	$ 5,885,545
Ending balance for loans collectively evaluated for impairment	$ 226,737,036	$ 12,199,251	$ 21,440,267	$ 7,031,650	$ 4,450,029	$ 2,026,313	$ 3,408,163	$ 277,292,709

	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, 2017	$ 1,140,117	$ 70,403	$ 37,872	$ 3,938	$ 44,078	$ 2,253	$ 3,970	$ 1,302,631
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	175,104	-	-	-	-	-	175,104
Provision for loan losses	63,038	(183,027)	(8,720)	(1,826)	(34,252)	(489)	11	(165,265)
Balance at December 31, 2018	$ 1,203,155	$ 62,480	$ 29,152	$ 2,112	$ 9,826	$ 1,764	$ 3,981	$ 1,312,470
Ending Balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending Balance: collectively evaluated for impairment	$ 1,203,155	$ 62,480	$ 29,152	$ 2,112	$ 9,826	$ 1,764	$ 3,981	$ 1,312,470
Recorded Investment in Loans Outstanding:								
Ending Balance at December 31, 2018	$ 218,112,021	$ 12,818,910	$ 20,741,857	$ 2,885,997	$ 4,114,917	$ 2,025,466	$ 3,903,710	$ 264,602,878
Ending balance for loans individually evaluated for impairment	$ 4,046,230	$ 229,787	$ -	$ -	$ -	$ -	$ -	$ 4,276,017
Ending balance for loans collectively evaluated for impairment	$ 214,065,791	$ 12,589,123	$ 20,741,857	$ 2,885,997	$ 4,114,917	$ 2,025,466	$ 3,903,710	$ 260,326,861

	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, 2016	$ 1,694,453	$ 257,900	$ 28,885	$ 2,923	$ 79,111	$ 15,000	$ 2,676	$ 2,080,948
Charge-offs	(10,972)	(590,486)	-	-	-	-	-	(601,458)
Recoveries	14,277	10,200	-	-	-	-	-	24,477
Provision for loan losses	(557,641)	392,789	8,987	1,015	(35,033)	(12,747)	1,294	(201,336)
Balance at December 31, 2017	$ 1,140,117	$ 70,403	$ 37,872	$ 3,938	$ 44,078	$ 2,253	$ 3,970	$ 1,302,631
Ending Balance: individually evaluated for impairment	$ -	$ 1,085	$ -	$ -	$ -	$ -	$ -	$ 1,085
Ending Balance: collectively evaluated for impairment	$ 1,140,117	$ 69,318	$ 37,872	$ 3,938	$ 44,078	$ 2,253	$ 3,970	$ 1,301,546
Recorded Investment in Loans Outstanding:								
Ending Balance at December 31, 2017	$ 198,248,888	$ 12,575,853	$ 22,578,534	$ 3,765,705	$ 4,380,561	$ 2,024,620	$ 3,988,246	$ 247,562,407
Ending balance for loans individually evaluated for impairment	$ 4,215,611	$ 722,600	$ -	$ -	$ -	$ -	$ -	$ 4,938,211
Ending balance for loans collectively evaluated for impairment	$ 194,033,277	$ 11,853,253	$ 22,578,534	$ 3,765,705	$ 4,380,561	$ 2,024,620	$ 3,988,246	$ 242,624,196

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 in the accompanying consolidated 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 owned 1.29 percent, 1.27 percent and 1.23 percent of the issued stock of the bank as of December 31, 2019, 2018 and 2017. As of those dates, the bank's assets totaled $25.66, $24.53 and $22.84 billion and members' equity totaled $1.84, $1.78 and $1.67 billion. The bank's earnings were $203.0, $190.5 and $196.0 during 2019, 2018 and 2017.

NOTE 5 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2019	2018	2017
Land and improvements	**$ 827,405**	$ 112,859	$ 97,859
Building and improvements	**475,690**	488,477	508,039
Furniture and equipment	**88,393**	95,302	104,872
Computer equipment and software	**87,607**	83,632	62,771
Automobiles	**653,531**	620,539	507,072
Fixed asset holding	**-**	-	6,881
Construction in progress	**757,957**	4,158	-
	2,890,583	1,404,967	1,287,494
Accumulated depreciation	**(695,406)**	(652,388)	(651,214)
Total	**$ 2,195,177**	$ 752,579	$ 636,280

The association owns buildings in Sulphur Springs, Canton and Gilmer, and leases office space in Kaufman and Sulphur Springs (two locations). The association is currently constructing buildings in Longview and Terrell with an anticipated completion date of

Q2 2020. The Kaufman building lease is on a month-to-month basis. Both Sulphur Springs building leases are one-year leases which expire in 2020. Lease expense was $49,542, $51,642 and $49,185 for 2019, 2018 and 2017, respectively.

Minimum annual lease payments for the next five years are as follows:

	Operating
2020	$ 28,150
2021	-
2022	-
2023	-
2024	-
Thereafter	-
Total	$ 28,150

NOTE 6 — OTHER PROPERTY OWNED, NET:

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

	2019	2018	2017
Gain (loss) on sale, net	**$ 8,724**	$ 36,028	$ 1,715
Provision expense	**-**	(72,217)	-
Operating income (expense), net	**(1,633)**	(15,829)	(21,092)
Net gain (loss) on other property owned	**$ 7,091**	$ (52,018)	$ (19,377)

At December 31, 2019, the association held no acquired property. There was one sale during 2019 that resulted in a gain of $8,724.

At December 31, 2018, other property owned consisted of one property. The property is 10 acres of bare land. The fair value of the property is $54,000 with a net book balance of $49,290. Net operating expenses incurred on other property owned were $88,046. During 2018, there were two sales of other property owned that resulted in a net gain of $36,028.

The association held no properties classified as other property owned at December 31, 2017.

NOTE 7 — OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	2019	2018	2017
Accounts receivable other	**$ 149,445**	$ 152,774	$ 156,164
Other	**22,008**	8,059	8,993
Total	**$ 171,453**	$ 160,833	$ 165,157

Other liabilities comprised the following at December 31:

		2019		2018		2017
Accounts payable	**$**	**965,032**	$	927,466	$	950,582
Postretirement benefits liability		**270,060**		238,634		263,654
Accrued annual leave		**179,211**		156,844		122,515
Other		**15,880**		16,762		11,970
Total	**$**	**1,430,183**	$	1,339,706	$	1,348,721

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, 2020, unless sooner terminated by the bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the bank 120 days' prior written notice.

The total amount and the weighted average interest rate of the association's direct loan from the bank at December 31, 2019, 2018 and 2017, was $225,732,667 at 3.09 percent, $207,561,145 at 2.84 percent and $191,700,575 at 2.44 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, 2019, 2018 and 2017, the association's note payable was within the specified limitations. The maximum amount the association may borrow from the bank as of December 31, 2019, was $271,538,454, 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, 2019, 2018 and 2017, the association was not subject to remedies associated with the covenants in the general financing agreement.

Other than our funding relationship with the bank, we have no other uninsured or insured debt.

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.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2019, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

All classes of stock are transferable to other customers who are eligible to hold such class as long as we meet the regulatory minimum capital requirements.

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, 2019, 2018 and 2017, the association had no Class C stock.

All borrower stock is at-risk. As such, losses that result in impairment of capital stock or participation certificates shall be borne on a pro rata basis by all holders of Class A, 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 2019, 2018 and 2017, respectively:

Date Declared	Date Paid	Patronage
January 2019	April 2019	2,299,643
December 2017	April 2018	2,100,000
January 2017	April 2017	2,399,984

The Farm Credit Administration sets minimum regulatory capital requirements for banks and associations. Effective January 1, 2017, new regulatory capital requirements for banks and associations were adopted. These new requirements replaced the core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 Capital and Total Capital risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System banks with a Tier 1 Leverage ratio and an Unallocated Retained Earnings (URE) and URE Equivalents Leverage ratio that are applicable to both the banks and associations. The Permanent Capital Ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past. As of December 31, 2019, 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 following sets forth the regulatory capital ratio requirements and ratios at December 31, 2019:

Risk-adjusted:	Regulatory Minimums	Conservation Buffer*	Total	As of December 31, 2019
Common equity tier 1 ratio	4.50%	2.50%	7.00%	21.37%
Tier 1 capital ratio	6.00%	2.50%	8.50%	21.37%
Total capital ratio	8.00%	2.50%	10.50%	21.86%
Permanent capital ratio	7.00%	0.00%	7.00%	21.48%
Non-risk-adjusted:				
Tier 1 leverage ratio**	4.00%	1.00%	5.00%	19.71%
UREE leverage ratio	1.50%	0.00%	1.50%	20.76%

*the 2.5 percent capital conservation buffer for the risk-adjusted ratios will be phased in over a three year period ending on December 31, 2019.

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

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

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

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

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

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

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

The components of the association's risk-adjusted capital, based on 90-day average balances, were as follows at December 31, 2019:

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	**$ 40,999,462**	**$ 40,999,462**	**$ 40,999,462**	**$ 40,999,462**
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**1,076,802**	**1,076,802**	**1,076,802**	**1,076,802**
Nonqualified allocated equities not subject to retirement	**17,565,823**	**17,565,823**	**17,565,823**	**17,565,823**
Allowance for loan losses and reserve for credit losses subject to certain limitations*			**1,284,257**	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(4,032,577)**	**(4,032,577)**	**(4,032,577)**	**(4,032,577)**
	55,609,510	**55,609,510**	**56,893,767**	**55,609,510**
Denominator:				
Risk-adjusted assets excluding allowance	**264,263,292**	**264,263,292**	**264,263,292**	**264,263,292**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**(4,032,577)**	**(4,032,577)**	**(4,032,577)**	**(4,032,577)**
Allowance for loan losses				**(1,284,257)**
	$260,230,715	**$260,230,715**	**$260,230,715**	**$258,946,458**

*Capped at 1.25 percent of risk-adjusted assets

The components of the association's non-risk-adjusted capital, based on 90-day average balances, were as follows at December 31, 2019:

(dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	**$ 40,999,462**	**$ 40,999,462**
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	**1,076,802**	**-**
Nonqualified allocated equities not subject to retirement	**17,565,823**	**17,565,823**
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	**(4,032,577)**	**-**
	55,609,510	**58,565,285**
Denominator:		
Total Assets	**287,970,229**	**287,970,229**
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	**(5,818,722)**	**(5,818,722)**
	$ 282,151,507	**$ 282,151,507**

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 capital standards. The Plan monitors projected patronage distributions, equity retirements and other actions that may decrease the association's capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan 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 annually, management reviews the association's goals and objectives with the board of directors.

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:

		2019		2018		2017
Class A stock	**$**	**206,986**	$	207,616	$	214,636
Participation certificates		**8,747**		7,352		6,665
Total	**$**	**215,733**	$	214,968	$	221,301

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

		2019		2018		2017
Nonpension postretirement benefits	**$**	**26,084**	$	59,139	$	38,931

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:

	2019	2018	2017
Accumulated other comprehensive income (loss) at January 1	**$ 59,139**	$ 38,931	$ 76,474
Actuarial gains (losses)	**(29,068)**	15,584	(25,751)
Prior service (cost) credit	**-**	11,391	-
Amortization of prior service (credit) costs included in salaries and employee benefits	**(1,565)**	(6,145)	(8,197)
Amortization of actuarial (gain) loss included in salaries and employee benefits	**(2,422)**	(622)	(3,595)
Other comprehensive income (loss), net of tax	**(33,055)**	20,208	(37,543)
Accumulated other comprehensive income at December 31	**$ 26,084**	$ 59,139	$ 38,931

NOTE 10 — INCOME TAXES:

There was no provision for income taxes for the years ended December 31, 2019, 2018 or 2017.

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:

		2019		2018		2017
Federal tax at statutory rate	**$**	**834,589**	$	812,518	$	1,192,873
Effect of nontaxable FLCA subsidiary		**(1,409,468)**		(1,192,382)		(2,026,767)
Change in valuation allowance		**574,879**		378,957		(2,232,157)
Change in statutory tax rate		**-**		-		3,066,051
Other		**-**		907		-
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:

	2019	2018	2017
Deferred Tax Assets			
Allowance for loan losses	$ **94,970**	$ 12,618	$ 14,098
Loss carryforwards	**5,456,939**	4,964,412	4,583,974
Gross deferred tax assets	**5,551,909**	4,977,030	4,598,072
Deferred tax asset valuation allowance	**(5,551,909)**	(4,977,030)	(4,598,072)
Net deferred tax asset (liability)	$ **-**	$ -	$ -

The association recorded valuation allowances of $5,551,909, $4,977,030 and $4,598,072 during 2019, 2018 and 2017, respectively. The 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. The Association's net operating loss carryforward at December 31, 2019 approximates $25,985,423, of which 21,828,449 will begin to expire in 2025 and 4,156,974 has an indefinite carryforward period.

The enactment of federal tax legislation in late December 2017, among other things, lowered the federal corporate tax rate from 35 percent to 21 percent beginning in 2018. In accordance with GAAP, the change to the lower corporate tax rate led to a revaluation of our deferred tax liabilities and deferred tax assets in the period of enactment (2017). The provision for income taxes in 2017 was mainly due to a decrease in deferred tax assets with a corresponding valuation allowance resulting from the enactment of federal tax legislation in late December 2017 which, among other things, lowered the federal corporate tax rate from 35 percent to 21 percent beginning in 2018.

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, 2019, 2018 and 2017. There were no payments made from the supplemental 401(k) plan to active employees during 2019, 2018 and 2017.

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. The actuarial present value of vested and nonvested accumulated benefit obligation exceeded the net assets of the DB plan as of December 31, 2019.

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, 2019, 2018 and 2017:

	2019	2018	2017
Funded status of plan	**66.2** %	68.0 %	69.7 %
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 68.0 percent, 70.1 percent and 73.4 percent at December 31, 2019, 2018 and 2017, 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:

Disclosure Information Related to Retirement Benefits	**2019**	2018	2017
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	**$ 238,634**	$ 263,654	$ 236,076
Service cost	**6,785**	8,265	6,786
Interest cost	**10,927**	10,240	10,541
Plan participants' contributions	**690**	690	690
Plan amendments	**-**	(11,391)	-
Special termination benefits	**-**	-	-
Actuarial loss (gain)	**29,068**	(15,584)	25,751
Benefits paid	**(16,044)**	(17,240)	(16,190)
Accumulated postretirement benefit obligation, end of year	**$ 270,060**	$ 238,634	$ 263,654
Change in Plan Assets			
Plan assets at fair value, beginning of year	**$ -**	$ -	$ -
Actual return on plan assets	**-**	-	-
Company contributions	**15,354**	16,550	15,500
Plan participants' contributions	**690**	690	690
Benefits paid	**(16,044)**	(17,240)	(16,190)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Funded status of the plan	**$ (270,060)**	$ (238,634)	$ (263,654)
Amounts Recognized in Statement of Financial Position			
Other liabilities	**$ (270,060)**	$ (238,634)	$ (263,654)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss (gain)	**$ (16,258)**	$ (47,748)	$ (32,786)
Prior service cost (credit)	**(9,826)**	(11,391)	(6,145)
Net transition obligation (asset)	**-**	-	-
Total	**$ (26,084)**	$ (59,139)	$ (38,931)
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	**12/31/2019**	12/31/2018	12/31/2017
Discount rate	**3.45%**	4.75%	4.00%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**6.90%/6.40%**	7.30%/6.90%	7.70%/6.90%
Health care cost trend rate assumed for next year - Rx	**6.40%**	6.90%	6.90%
Ultimate health care cost trend rate	**4.50%**	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	**2029**	2027	2026

Total Cost	**2019**	2018	2017
Service cost	**$ 6,785**	$ 8,265	$ 6,786
Interest cost	**10,927**	10,240	10,541
Expected return on plan assets	**-**	-	-
Amortization of:			
Unrecognized net transition obligation (asset)	**-**	-	-
Unrecognized prior service cost	**(1,565)**	(6,145)	(8,197)
Unrecognized net loss (gain)	**(2,422)**	(622)	(3,595)
Net postretirement benefit cost	**$ 13,725**	$ 11,738	$ 5,535
Accounting for settlements/curtailments/special termination benefits	**$ -**	$ -	$ -
Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income			
Net actuarial loss (gain)	**$ 29,068**	$ (15,584)	$ 25,751
Amortization of net actuarial loss (gain)	**2,422**	622	3,595
Prior service cost (credit)	**-**	(11,391)	-
Amortization of prior service cost	**1,565**	6,145	8,197
Recognition of prior service cost	**-**	-	-
Amortization of transition liability (asset)	**-**	-	-
Total recognized in other comprehensive income	**$ 33,055**	$ (20,208)	$ 37,543
AOCI Amounts Expected to be Amortized into Expense in 2016			
Unrecognized net transition obligation (asset)	**$ -**		
Unrecognized prior service cost	**(1,565)**		
Unrecognized net loss (gain)	**-**		
Total	**$ (1,565)**		
Weighted-Average Assumptions Used to Determine Benefit Cost			
Measurement date	**12/31/2018**	12/31/2017	12/31/2016
Discount rate	**4.75%**	4.00%	4.60%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**7.30%/6.90%**	7.70%/6.90%	6.75%/6.50%
Health care cost trend rate assumed for next year - Rx	**6.90%**	6.90%	6.50%
Ultimate health care cost trend rate	**4.50%**	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	**2027**	2026	2025

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)	
Fiscal 2020	**$ 17,180**
Fiscal 2021	**18,353**
Fiscal 2022	**19,543**
Fiscal 2023	**14,018**
Fiscal 2024	**13,434**
Fiscal 2025–2029	**56,008**
Expected Contributions	
Fiscal 2020	**$ 17,180**

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 at December 31, 2019, 2018 and 2017 for the association amounted to $2,324,341, $2,555,118 and $2,091,107. During 2019, 2018 and 2017, $1,229,095, $2,885,229 and $1,021,827 of new loans were made, and repayments totaled $1,428,101, $2,363,121 and $357,165, respectively. In the opinion of management, no such loans outstanding at December 31, 2019, 2018 and 2017 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 $329,682, $348,316 and $408,751 in 2019, 2018 and 2017, respectively.

The association received patronage payments from the bank totaling $1,129,076, $979,573 and $810,565 during 2019, 2018 and 2017, 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, 2019	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans	**$ -**	**$ -**	**$1,875,594**	**$1,875,594**
Other property owned	**-**	**-**	**-**	**-**

December 31, 2018	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ -	$ -
Other property owned	-	-	54,000	54,000

December 31, 2017	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ 10,748	$ 10,748
Other property owned	-	-	-	-

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

December 31, 2019
Fair Value Measurement Using

	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:					
Cash	**$ 125,999**	**$125,999**	**$ -**	**$ -**	**$ 125,999**
Net loans	**278,536,456**	**-**	**-**	**279,739,197**	**279,739,197**
Total Assets	**$ 278,662,455**	**$125,999**	**$ -**	**$ 279,739,197**	**$ 279,865,196**
Liabilities:					
Note payable to bank	**$ 225,732,667**	**$ -**	**$ -**	**$ 226,704,543**	**$ 226,704,543**
Total Liabilities	**$ 225,732,667**	**$ -**	**$ -**	**$ 226,704,543**	**$ 226,704,543**

December 31, 2018
Fair Value Measurement Using

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 126,946	$ 126,946	$ -	$ -	$ 126,946
Net loans	262,006,239	-	-	255,475,935	255,475,935
Total Assets	$262,133,185	$ 126,946	$ -	$255,475,935	$255,602,881
Liabilities:					
Note payable to bank	$207,561,145	$ -	$ -	$202,413,629	$202,413,629
Total Liabilities	$207,561,145	$ -	$ -	$202,413,629	$202,413,629

December 31, 2017
Fair Value Measurement Using

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 104,733	$ 104,733	$ -	$ -	$ 104,733
Net loans	245,119,167	-	-	239,796,224	239,796,224
Total Assets	$245,223,900	$ 104,733	$ -	$239,796,224	$239,900,957
Liabilities:					
Note payable to bank	$191,700,575	$ -	$ -	$187,559,843	$187,559,843
Total Liabilities	$191,700,575	$ -	$ -	$187,559,843	$187,559,843

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 2019, 2018 or 2017.

With regard to nonrecurring measurements for 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.

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 Evaluated for Impairment

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, a majority of these loans have fair value measurements that fall within Level 3 of the fair value 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. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. 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, 2019, $22,341,432 of commitments and $219,405 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 consolidated balance sheets 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 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

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

	2019				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 1,992**	**$ 1,900**	**$ 2,132**	**$ 2,084**	**$ 8,108**
(Provision for) reversal of loan losses	**3**	**54**	**(25)**	**28**	**60**
Noninterest income (expense), net	**(968)**	**(1,058)**	**(1,111)**	**(1,057)**	**(4,194)**
Net income	**$ 1,027**	**$ 896**	**$ 996**	**$ 1,055**	**$ 3,974**

	2018				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,911	$ 1,943	$ 2,019	$ 1,989	$ 7,862
(Provision for) reversal of loan losses	33	106	(8)	34	165
Noninterest income (expense), net	(875)	(1,075)	(982)	(1,226)	(4,158)
Net income	$ 1,069	$ 974	$ 1,029	$ 797	$ 3,869

	2017				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,732	$ 2,070	$ 1,930	$ 1,824	$ 7,556
(Provision for) reversal of loan losses	(10)	118	51	42	201
Noninterest income (expense), net	(990)	(1,115)	(1,126)	(1,118)	(4,349)
Net income	$ 732	$ 1,073	$ 855	$ 748	$ 3,408

NOTE 16 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through March 9, 2020, which is the date the financial statements were issued or available to be issued and has determined that there were no other events requiring disclosure.

DISCLOSURE INFORMATION AND INDEX

(Unaudited)

Disclosures Required by Farm Credit Administration Regulations

DESCRIPTION OF BUSINESS

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

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

DESCRIPTION OF PROPERTY

The 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. The association leases two office buildings in Sulphur Springs and one office building in Kaufman. The association purchased lots in both Terrell and Longview and is currently constructing offices at both locations. These offices are expected to open in early 2020.

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) are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720-2590 or calling (512) 465-1881. Copies of the bank 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, Texas 75482 or calling (903) 885-9566. Copies of the association's quarterly stockholder reports can also be requested by e-mailing sherry.sturgis@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, 2019, 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	2022
Cheryl Scott	Board-Appointed Director	2019	2022
Cody Newman	Director	2000	2022
Brandon Sides	Director	2017	2020
David R. Reeves	Director	2017	2020
Danny Evans	Director	2018	2021
Louis Cernoch, Jr.	Director	2018	2021
Derrell Chapman	CEO	2017	-
Al Conner	SVP/CLO	2012	-
Sherry Sturgis	SVP/CAO	2007	-
Daryl D. Belt	SVP/CFO	2007	-
Jake Agaron	SVP/CCO	2014	-

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

Terry D. Milligan, director, chairman of the board and a member of the audit committee. 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 he 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 has served as chairman of the board since 2016. He had previously served as vice chairman of the board and executive session secretary, and he is the association's representative on the Farm Credit Bank of Texas Stockholder Advisory Council and nominating committee. He has served as stockholder-elected director since his election in 2010.

Cheryl Scott, director and audit committee chairman. Mrs. Scott resides in the Miller Grove community in Hopkins County, Texas, and is a Certified Public Accountant who is an accounting instructor at Texas A&M University-Commerce. She earned a B.S. degree in Professional Accountancy and a Masters of Business Administration degree from Texas A&M University-Commerce. Mrs. Scott previously served as the Director of Financial Reporting and the Director of Emerging Financial Services at the university. She has also served as Business Manager for the NCAA Lone Star Conference. Mrs. Scott was selected as an outside or board-appointed director in September 2019.

Cody Newman, director and vice chairman of the audit committee. Mr. Newman is president and co-owner in a family business, the Newman Corporation, which manages investments and operational activities in oil and gas production and real estate development, located in Harrison County. He serves as a board member of NH, Inc./Newman Ranches, a family business which operates ranches, purchases and sells livestock, and manages timber production in Harrison and Marion counties. 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 East Texas State University. He served as director at large for the association from 2000 until he was elected director by the stockholders in 2008. He was elected board vice chairman in 2010 and served in that position until 2015. Additionally, he has served as audit committee vice chairman and chairman of the compensation committee.

Brandon Sides, director, vice chairman of the board and chairman of the compensation committee. Mr. Sides resides in Canton, Texas, where he is owner and operator of Sides Pea Farm & Processing Facility. He serves on the Dallas School District Farm to School Steering Committee. Mr. Sides holds a Political Science degree and a minor in Business and Spanish from the University of Texas. He was appointed as a stockholder-elected director in February, 2017 to fill an unexpired term and was subsequently elected to a three-year term in 2017.

David R. (Randy) Reeves, director and member of the audit committee. Mr. Reeves resides in Harleton, Texas. He served as a County Extension Agent – Agriculture for over 35 years, serving in Harrison, Hardin, Upshur and Gregg counties. He has a BS in Agricultural Economics and an MS in General Agriculture, both from Tarleton State University in Stephenville, Texas. Mr. Reeves is currently employed with Jake's Feed and Animal Center in Longview as their Lawn and Garden Specialist. Mr. Reeves previously served as a school board member for the Texas Early College High School in Marshall, Texas, and Panola Charter School in Carthage, Texas. Mr. Reeves is also a past member of the Education and Research Committee for the Southwestern Cattle Raisers Association. Mr. Reeves was elected by the stockholders as director in September 2017.

Danny Evans, director and member of the compensation committee. Mr. Evans resides near Sulphur Springs, Texas, where he owns and operates a beef cattle operation and hay production operation. He holds a BS degree in Agricultural Education from East Texas State University where he also earned a Master's Degree in Agriculture. He was a high school agriculture teacher for two years before operating a dairy farm for 33 years. He discontinued his dairy operation in 2009 and served as a County Commissioner for Hopkins County for 16 years. He currently serves on the board of the Hopkins/Rains County Farm Bureau (agricultural federation) and has previously served on the Region D Water Planning Group (regional water service) and on several agricultural commodity and farmer cooperative boards. Mr. Evans has served as stockholder-elected director since his election in 2018.

Louis Cernoch, Jr., director and member of the compensation committee. Mr. Cernoch resides in Poetry, Texas, and owns and operates a cow-calf and yearling ranch operation with locations in several Texas counties. He graduated from East Texas State University with a B.S. degree in Agriculture. Mr. Cernoch is member of Emanuel Baptist Church, Texas Baptist Men, and Labor for Your Neighbor. Mr. Cernoch has served as a stockholder-elected director since his election in 2018.

Derrell Chapman, CPA, serves as chief executive officer. He was selected as CEO and began his service with the association in September of 2017. He previously served as president and CEO and as a director of First Federal Bank Texas and its holding company, East Texas Financial Services, Inc., both located in Tyler, Texas. He previously served as chief financial officer of those same entities. Mr. Chapman was also a regional president for a $22 billion commercial bank in the Tyler market. Mr. Chapman has a BBA in finance from Texas A&M University in College Station, Texas. Mr. Chapman is a certified public accountant licensed in the state of Texas, and has over 37 years of experience in the financial services industry.

Al Conner serves as chief lending officer, and he served as interim chief executive officer prior to Mr. Chapman's selection. 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.

Jake Aragon joined the association in 2014 and currently serves as CCO. Mr. Aragon began his FCS career with Farm Credit of New Mexico in 2000. Mr. Aragon has over 16 years of Farm Credit experience in various capacities with associations, and served as CCO with AgriLand, FCS prior to that association's merger with Texas AgFinance, FCS. Mr. Aragon holds a B.B.A in finance with a minor in management and a bachelor of accountancy with a minor in economics from New Mexico State University.

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

Daryl D. Belt serves as SVP and chief financial officer. Mr. Belt joined the association in 2007 and has been with the Farm Credit System since 1993 in various capacities with associations and the district bank (FCBT). Mr. Belt was with JPMorgan Chase & Co. for 10 years prior to joining Farm Credit. 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 $750 per day for official activities and $150 for teleconference meetings. The audit committee chairman receives a monthly retainer of $1,000 but is paid regular honorarium for all other activities. Directors were also reimbursed for certain expenses incurred while representing the association in an official capacity. Mileage for attending official meetings during 2019 was paid at the IRS-approved rate of 58.0 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 2019
Terry D. Milligan	11	33	$ 28,200
Cheryl Scott	4	5	6,700
Cody Newman	11	16	17,850
Brandon Sides	10	19	20,700
David R. Reeves	11	20	19,800
Danny Evans	11	14	17,100
Louis Cernoch, Jr.	11	18	20,100
John Shinn	9	22	18,750
			$ 149,200

The aggregate compensation paid to directors in 2019, 2018 and 2017 was $149,200, $141,950 and $209,550, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows for 2019:

	Committee	
Director	Audit	Other Official Activities
Terry D. Milligan	$ 600	$ 27,600
Cheryl Scott	300	6,400
Cody Newman	600	17,250
Brandon Sides	-	20,700
David R. Reeves	450	19,350
Danny Evans	150	16,950
Louis Cernoch, Jr.	150	19,950
John Shinn	600	18,150
	$ 2,850	$ 146,350

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $55,438, $50,276 and $81,847 in 2019, 2018 and 2017, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Senior Officers

Overview

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 2019, 2018 and 2017 bonuses were paid in accordance with the bonus plan as discussed below.

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 that 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.

All association employees, with the exception of the CEO and loan officers who do not meet established minimums of production goals, 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 Team-Based Plan is based upon the achievement of predetermined association performance goals for interest rate spreads, accrual loan volume growth, average delinquencies, adjusted net income and loan fees collected.

Production-based incentive payments can be earned by loan officers when they meet and exceed their respective loan production goals. Loan officers can earn 10-25 basis points times the amount of their individual loan production based on a tiered production goal established by management. Loan officers who have individually-assigned production goals must meet established minimuum loan production goals to receive any incentive compensation from the team-based portion of the team based plan.

Additionally, a pool will be created based on 50 percent of the total dollars in incentive payments earned by the loan officer production incentive results, and the team members other than the relationship managers/loan officers will share in that pool in a manner as determined and defined by the CEO.

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.

Chief Executive Officer (CEO) Compensation Policy

The CEO may be awarded additional compensation above his base salary based upon board discretion. The board takes into consideration the CEO's performance relative to a previously agreed upon CEO Principal Accountabilities document, various association performance metrics, a peer performance comparison and district CEO overall compensation packages.

Summary Compensation Table

The following table summarizes the compensation paid to the CEO and all senior officers of the association during 2019, 2018 and 2017. 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)	Other (e)	Total
Derrell Chapman - CEO	**2019**	**$ 217,509**	**$ 28,275**	**$ 48,394**	**$ -**	**$ 294,178**
Derrell Chapman - CEO	2018	210,008	40,000	49,565	-	299,573
Derrell Chapman - CEO	2017	57,578	11,217	7,132	30,000	105,928
Al Conner (Interim CEO / CCO)	2017	214,308	41,303	2,304	-	257,915
Senior Officers/OHCI (a)						
6	**2019**	**$ 854,175**	**$ 116,491**	**$ 179,664**	**$ -**	**$1,150,330**
5	2018	701,041	134,552	146,967	-	982,560
5	2017	608,186	130,380	175,854	28,629	943,049

(a) Aggregate number of senior officers/highly compensated individuals, excluding CEO.
(b) Gross salary, including retention plan compensation for certain senior officers.
(c) Bonuses paid in early 2020 related to 2019 performance.
(d) Deferred/Perquisites include all non-salary related benefits provided to the employee such as 401(K) matching and contributions to the Defined Contribution retirement plan (as discussed in Note 2 H), medical and dental insurance premiums paid by the employer, imputed income on employer paid life insurance and imputed income for personal use of association vehicles (as described below).
(e) Amounts in the "Other" column include a signing bonus for the CEO and for Senior Officers/OHCI it represents a retention bonus paid in connection with the terminated merger.

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 2018 at the IRS-approved rate of 58.0 cents per mile.

Neither the CEO nor any other senior officer received noncash compensation exceeding $5,000 in 2019, 2018 and 2017.

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

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

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

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

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 2019 annual report. The total fees for professional services rendered by PricewaterhouseCoopers LLP for the association related to 2019 were $66,000 for audit services, $10,700 for tax services and $900 for nonaudit services.

RELATIONSHIP WITH UNINCORPORATED BUSINESS ENTITIES

The association has no business relationships with any unincorporated business entities as of December 31, 2019.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PriceWaterhouseCoopers LLP dated March 9, 2020, 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

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

Definitions

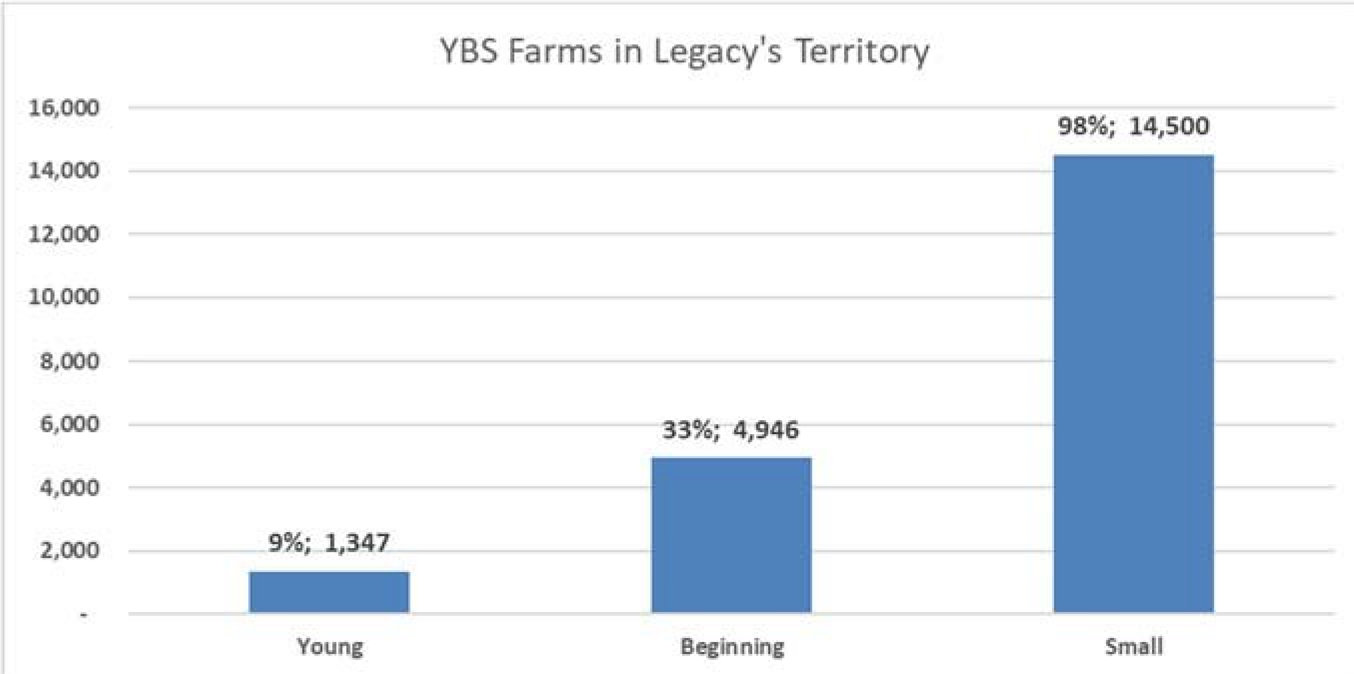
- Young Farmer – age 35 or younger
- Beginning Farmer – 10 years or less experience
- Small Farmer - $250,000 or less gross agricultural income

USDA 2017 Census of Agricultural Data

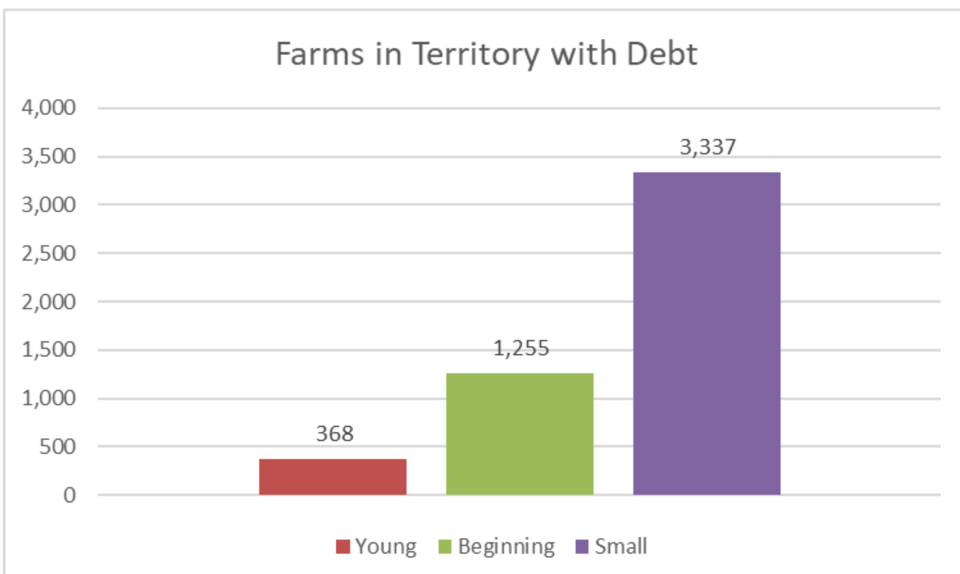
In April 2019 USDA published its 2017 Ag Census. The census provides information about America's farms and ranches and those that operate them, including new data about on-farm decision making, down to the county level. Information collected directly from farmers and ranchers tells us that farm numbers and land in farms continued to decline since the last Census completed in 2012. A comparison of the 2017 Census with the 2012 Census indicates an increase in larger and smaller operation and fewer middle-sized farms. The average age of all farmers and ranchers continues to rise.

Demographic Data – Legacy's 10 County Territory – Updated USDA Ag Census

The following chart represents young, beginning and small farms within Legacy's territory.



The chart below represents young, beginning and small farms in Legacy's territory that reported having farm debt per the 2017 census.



Legacy's portfolio consisted of 1,608 loans as of year-end 2019, 1,575 loans as of year-end 2018 and 1,612 loans as of year-end 2017. The table below represents Legacy's YBS concentrations as of year-end 2019, 2018 and 2017, based on the total number of loans in the portfolio.

	2019 Count/% of Total Portfolio		2018 Count/% of Total Portfolio		2017 Count/% of Total Portfolio	
Young	212	27.9%	211	27.2%	297	15.7%
Beginning	759	76.4%	777	74.3%	958	50.6%
Small	993	64.3%	1046	66.4%	1331	70.2%

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 the three-year period 2017 - 2019.

Based on the updated USDA 2017 Ag Census, Legacy did not keep pace booking YBS loans which experienced a slight increase in the demographics 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 64 percent of the association's loan portfolio by number, 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, in 2019 there were mixed results in comparing actual results versus goals. In the Young Farmer category, the association was slightly below the goal in number and slightly above the goal in volume. In the Beginning Farmer category, the association was below the goal in both number and volume. In the Small Farmer category, the association was slightly below the goal in number and slightly above the goal in volume.

The association will continue its efforts to aggressively serve its marketplace. The association's YBS plan in the 2020 Business Plan establishes a 3 percent growth goal when compared to 2019 actual loan numbers and volume in each category. 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 achieve its goals.

The following chart identifies the association's actual 2019 results and goals for years 2020, 2021 and 2022. Based on these goals, the association expects that the volume and number of YBS farmers served throughout our territory will grow in future years.

2019 Actual

	Loans Outstanding		Gross New Business Plus Commitments FYE	
Category	Number of Loans	Volume	Number of Loans	Volume
Young	212	$ 27,161	37	$ 7,166
Beginning	759	$ 110,568	126	$ 27,146
Small	993	$ 69,612	171	$ 15,562

2019 Goals

	Loans Outstanding		Gross New Business Plus Commitments FYE	
Category	Number of Loans	Volume	Number of Loans	Volume
Young	217	$ 23,388	30	$ 7,559
Beginning	800	$ 112,936	112	$ 24,035
Small	1,077	$ 69,223	174	$ 14,035

2020 Goals

	Loans Outstanding		Gross New Business Plus Commitments FYE	
Category	Number of Loans	Volume	Number of Loans	Volume
Young	224	$ 24,090	31	$ 7,786
Beginning	824	$ 116,325	116	$ 24,756
Small	1,307	$ 163,298	208	$ 38,157

2021 Goals

	Loans Outstanding		Gross New Business Plus Commitments FYE	
Category	Number of Loans	Volume	Number of Loans	Volume
Young	231	$ 24,813	32	$ 8,020
Beginning	849	$ 119,814	119	$ 25,499
Small	1,346	$ 168,197	214	$ 39,302

2022 Goals

	Loans Outstanding		Gross New Business Plus Commitments FYE	
Category	Number of Loans	Volume	Number of Loans	Volume
Young	231	$ 24,813	32	$ 8,020
Beginning	849	$ 119,814	119	$ 25,499
Small	1,346	$ 168,197	214	$ 39,302

Related Services

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

- Workshops providing borrowers and local producer's 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 Texas Department of Agriculture

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 workshops 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 annual 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 livestock and equipment auctions

- Establishing a scholarship program

- Sponsoring local charitable and civic events

Strategies

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

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

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

- Increase utilization of the association's New Generation loan program. The association's goal is to close five (5) loans for a total of $200,000 in 2020.

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

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

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

- Opportunities to cooperate will include utilization of the association's New Generation Program, with coordinated efforts with USDA on its Young and Beginning Farmer participation programs.

- An annual report of the association's YBS loan related data is submitted to the Farm Credit Bank of Texas after each calendar year-end. The Farm Credit Bank of Texas compiles YBS data on a District-wide basis and submits to FCA and to the association Board of Directors. A summary 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 and 4-H students for the purchase of show animals.