LEGACY AG CREDIT, ACA

2020
Quarterly Report
First Quarter

For the Quarter Ended March 31, 2020

REPORT OF MANAGEMENT

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

Derrell W. Chapman, CPA, Chief Executive Officer

May 6, 2020

Terry Milligan, Chairman, Board of Directors

May 6, 2020

Daryl D. Belt, Chief Financial Officer

May 6, 2020

Cheryl Scott, CPA, Chairman, Audit Committee

May 6, 2020

First Quarter 2020 Financial Report

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The following commentary reviews the financial performance of Legacy Ag Credit, ACA, referred to as the association, for the quarter ended March 31, 2020. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2019 Annual Report to Stockholders.

The association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the association's audit committee.

*Significant Events***:**

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

Legacy Ag Credit, ACA has been operating under a declared emergency since March 13, 2020 due to the Coronavirus Disease 2019 (also referred to as COVID-19). Additionally, the association has been operating under both state and local government level mandates across its 10-county territory during this time period. Despite these unprecedented times and conditions, the association continues to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit.

The association has made changes to its operations as a result of COVID-19. The association has been operating under a restricted access environment for customers. Face-to-face meetings with customers are currently being managed on an appointment only basis. Lobby access has been closed to customers since mid-March 2020. The association staff has been working remotely on a rotating basis. None of these actions have resulted in diminished ability for the association to serve its members and prospective members.

The association has actively assisted existing customers with modifications to loan terms, including the complete deferral of loan payments for a temporary time period if the customer was otherwise in good standing at the onset of the COVID-19 virus and the customer has been affected directly by COVID-19. Internal controls over financial reporting and disclosure controls and procedures continue to operate effectively and no material changes to the controls or financial systems have occurred or are contemplated.

Through March 31, 2020 and the date of this report, there have been no additional significant delinquencies or credit metrics impacting the credit quality of the association's loan portfolio related to COVID-19. The association is closely monitoring its loan portfolio and is particularly focused on sectors that may be pressured by COVID-19 and its related economic impacts, such as oil and gas, poultry, timber and beef cattle. The association has adjusted its portfolio monitoring and servicing practices and, if appropriate, will evaluate its allowance for loan losses as changes in outlook occur. Capital levels remained strong to support any adversity or continuing loan demand.

The overall impact of COVID-19 is evolving rapidly, and future events are uncertain. Challenging economic conditions are likely ahead, however, as COVID-19 has caused many countries, including the U.S., to impose restrictions on travel and public gatherings. It is too early to accurately assess the potential impact of COVID-19 on the global, U.S. and district economies. The association will continue to closely monitor the situation in the coming quarters.

Loan Portfolio

Total loans outstanding at March 31, 2020, including nonaccrual loans and sales contracts, were $280,462,307 compared to $281,657,383 at December 31, 2019, reflecting a decrease of 0.42%. Nonaccrual loans as a percentage of total loans outstanding were 1.1% at March 31, 2020, compared to 1.1% at December 31, 2019.

The association recorded $1,500 in recoveries and $0 in charge-offs for the quarter ended March 31, 2020, and $1,500 in recoveries and $69,154 in charge-offs for the same period in 2019. The association's allowance for loan losses was 0.45% and 0.44% of total loans outstanding as of March 31, 2020, and December 31, 2019, 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. The following table illustrates the association's components and trends of high-risk assets.

	March 31, 2020		December 31, 2019	
	Amount	**%**	Amount	%
Nonaccrual	**3,099,487**	**53.4%**	$ 3,195,559	54.3%
Formally restructured	**2,703,430**	**46.6%**	2,689,986	45.7%
Total	**$ 5,802,917**	**100.0%**	$ 5,885,545	100.0%

Results of Operations

The association had net income of $1,026,080 for the three months ended March 31, 2020, as compared to net income of $1,026,510 for the same period in 2019, reflecting a decrease of 0.05%. Net interest income was $1,957,214 for the three months ended March 31, 2020, compared to $1,991,542 for the same period in 2019.

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	Three Months Ended			
	March 31, 2020		March 31, 2019	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 276,154,124**	**$ 3,587,228**	$ 265,360,715	$ 3,592,999
Interest-bearing liabilities	**220,757,824**	**1,630,014**	209,953,698	1,601,457
Impact of capital	**$ 55,396,300**		$ 55,407,017	
Net interest income		**$ 1,957,214**		$ 1,991,542

	2020 Average Yield	2019 Average Yield
Yield on loans	**5.22%**	5.49%
Cost of interest-bearing liabilities	**2.97%**	3.09%
Interest rate spread	**2.25%**	2.40%
Net interest income as a percentage of average earning assets	**2.85%**	3.04%

	Three months ended: March 31, 2020 vs. March 31, 2019		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 147,362**	**$ (153,133)**	**$ (5,771)**
Interest expense	**83,097**	**(54,540)**	**28,557**
Net interest income	**$ 64,265**	**$ (98,593)**	**$ (34,328)**

Interest income for the three months ended March 31, 2020, decreased by $5,771, or 0.2%, from the same period of 2019, primarily due to declines in yields on earning assets and an increase in average loan volume. Interest expense for the three months ended March 31, 2020, decreased by $28,557, or 1.8%, from the same period of 2019 due to a decrease in interest rates offset by an increase in average debt volume. Average loan volume for the first quarter of 2020 was $276,154,124, compared to $265,360,715 in the first, quarter of 2019. The average net interest rate spread on the loan portfolio for the first quarter of 2020 was 2.25%, compared to 2.40% in the first quarter of 2019.

The association's return on average assets for the three months ended March 31, 2020, was 1.45% compared to 1.53% for the same period in 2019. The association's return on average equity for the three months ended March 31, 2020, was 6.77%, compared to 6.94% for the same period in 2019.

Liquidity and Funding Sources

The association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the bank), which obtains its funds through the issuance of System-wide obligations and with lendable equity. The following schedule summarizes the association's borrowings.

		March 31, 2020		December 31, 2019
Note payable to the bank	**$**	**225,106,101**	$	225,732,667
Accrued interest on note payable		**553,064**		575,719
Total	**$**	**225,659,165**	$	226,308,386

The association operates under a general financing agreement (GFA) with the bank. The current GFA is effective through September 30, 2020. The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of $225,106,101 as of March 31, 2020, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 2.97 percent at March 31, 2020. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by the general financing agreement. The decrease in note payable to the bank and related accrued interest payable since December 31, 2019, is due to the association's decrease 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 $54,176,605 at March 31, 2020. The maximum amount the association may borrow from the bank as of March 31, 2020, was $275,731,097 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, unless sooner terminated by the bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the bank 120 days' prior written notice.

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

Capital Resources

The association's capital position decreased by $1,352,196 at March 31, 2020, compared to December 31, 2019, due to the declaration of $2.365 million in patronage offset by first quarter earnings of $1.02 million. The association's debt as a percentage of members' equity was 3.85:1 as of March 31, 2020, compared to 3.74:1 as of December 31, 2019.

Farm Credit Administration regulations require us to maintain minimums for various regulatory capital ratios. 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. As of March 31, 2020, the association exceeded all regulatory capital requirements.

Relationship With the Farm Credit Bank of Texas

The association's financial condition may be impacted by factors that affect the bank. The financial condition and results of operations of the bank may materially affect the stockholder's investment in the association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2019 Annual Report of Legacy Ag Credit, ACA more fully describe the association's relationship with the bank.

The annual and quarterly stockholder reports of the 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, or by calling (512) 483-9204. The annual and quarterly stockholder reports for the bank 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 can be obtained by writing to Legacy Ag Credit, ACA, 303 Connally St., Sulphur Springs, TX 75482 or calling (903) 885-9566. The annual and quarterly stockholder reports for the association are also available on its website at www.legacyaca.com. Copies of the association's quarterly stockholder reports can also be requested by e-mailing sherry.sturgis@legacyaca.com.

LEGACY AG CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	March 31, 2020 (unaudited)	December 31, 2019
ASSETS		
Cash	$ **125,301**	$ 125,999
Loans	**280,462,307**	281,657,383
Less: allowance for loan losses	**1,244,039**	1,245,333
Net loans	**279,218,268**	280,412,050
Accrued interest receivable	**1,752,125**	1,520,871
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**4,313,130**	4,313,130
Other	**454,006**	248,698
Premises and equipment, net	**2,710,647**	2,195,177
Other assets	**224,980**	171,453
Total assets	$ **288,798,457**	$ 288,987,378
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	$ **225,106,101**	$ 225,732,667
Advance conditional payments	**2,505**	1,690
Accrued interest payable	**553,069**	575,828
Drafts outstanding	**111,858**	285,122
Dividends payable	**2,429,691**	-
Other liabilities	**985,541**	1,430,183
Total liabilities	**229,188,765**	228,025,490
MEMBERS' EQUITY		
Capital stock and participation certificates	**1,065,780**	1,078,665
Unallocated retained earnings	**58,518,219**	59,857,139
Accumulated other comprehensive income (loss)	**25,693**	26,084
Total members' equity	**59,609,692**	60,961,888
Total liabilities and members' equity	$ **288,798,457**	$ 288,987,378

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

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended March 31, 2020	2019
INTEREST INCOME		
Loans	**$ 3,587,228**	$ 3,592,999
Total interest income	**3,587,228**	3,592,999
INTEREST EXPENSE		
Note payable to the Farm Credit Bank of Texas	**1,630,014**	1,601,413
Advance conditional payments	**-**	44
Total interest expense	**1,630,014**	1,601,457
Net interest income	**1,957,214**	1,991,542
PROVISION FOR LOAN LOSSES	**(2,794)**	(3,403)
Net interest income after provision for loan losses	**1,960,008**	1,994,945
NONINTEREST INCOME		
Income from the Farm Credit Bank of Texas:		
Patronage income	**284,735**	255,935
Loan fees	**42,178**	23,314
Refunds from Farm Credit System Insurance Corporation	**44,048**	46,063
Financially related services income	**72**	108
Gain (loss) on sale of premises and equipment, net	**(3,052)**	1,800
Other noninterest income	**18,734**	46,675
Total noninterest income	**386,715**	373,895
NONINTEREST EXPENSES		
Salaries and employee benefits	**830,328**	847,323
Directors' expense	**45,337**	67,705
Purchased services	**85,731**	123,022
Travel	**64,092**	63,180
Occupancy and equipment	**84,998**	65,201
Communications	**30,178**	14,777
Advertising	**32,229**	21,956
Public and member relations	**24,089**	25,341
Supervisory and exam expense	**27,346**	30,120
Insurance Fund premiums	**35,182**	37,512
Other components of net periodic postretirement benefit cost	**2,647**	1,735
Other noninterest expense	**58,486**	44,458
Total noninterest expenses	**1,320,643**	1,342,330
Income before income taxes	**1,026,080**	1,026,510
Provision for (benefit from) income taxes	**-**	-
NET INCOME	**1,026,080**	1,026,510
Other comprehensive income:		
Change in postretirement benefit plans	**(391)**	(997)
Other comprehensive income, net of tax	**(391)**	(997)
COMPREHENSIVE INCOME	**$ 1,025,689**	$ 1,025,513

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

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2018	$ 1,074,840	$ 58,182,546	$ 59,139	$ 59,316,525
Comprehensive income	-	1,026,510	(997)	1,025,513
Capital stock/participation certificates and allocated retained earnings issued	20,630			20,630
Capital stock/participation certificates and allocated retained earnings retired	(30,490)			(30,490)
Patronage payable		(2,300,000)		(2,300,000)
Balance at March 31, 2019	$ 1,064,980	$ 56,909,056	$ 58,142	$ 58,032,178
Balance at December 31, 2019	$ 1,078,665	$ 59,857,139	$ 26,084	$ 60,961,888
Comprehensive income	-	1,026,080	(391)	1,025,689
Capital stock/participation certificates and allocated retained earnings issued	27,470			27,470
Capital stock/participation certificates and allocated retained earnings retired	(40,355)			(40,355)
Patronage payable		(2,365,000)		(2,365,000)
Balance at March 31, 2020	**$ 1,065,780**	**$ 58,518,219**	**$ 25,693**	**$ 59,609,692**

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

Unaudited (dollar amounts in thousands, except per share amounts and as otherwise noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Legacy Ag Credit, ACA (Agricultural Credit Association), referred to as 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. The association serves 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 (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2019, as contained in the 2019 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2019, as contained in the 2019 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2020. Descriptions of the significant accounting policies are included in the 2019 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In December 2019, the Financial Accounting Standards Board (FASB) issued guidance entitled "Simplifying the Accounting for Income Taxes." This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted and the institution adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the institution's financial condition or results of operations.

In August 2018, FASB issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance became effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations.

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 became effective for interim and annual periods beginning after December 15, 2019. Early adoption was permitted, and an entity was permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The Association early adopted the removal and modified disclosures during the fourth quarter of 2018. The adoption of this guidance did not impact the Association's financial condition or its results of operations but did impact the fair value measurements disclosures.

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 was to become 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, for those institutions qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Association 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.

The consolidated financial statements comprise the operations of the ACA and its wholly owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended March 31, 2020, are not necessarily indicative of the results to be expected for the year ended December 31, 2019. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**March 31, 2020 Amount**	December 31, 2019 Amount
Production agriculture:		
Real estate mortgage	**$ 225,754,536**	$ 230,619,494
Production and intermediate term	**12,117,804**	12,777,483
Agribusiness:		-
Loans to cooperatives	**5,288,775**	2,322,849
Processing and marketing	**19,355,166**	18,519,930
Farm-related business	**770,239**	555,171
Communication	**7,023,207**	7,031,161
Energy	**4,669,827**	4,437,817
Water and waste water	**1,996,301**	1,996,090
Rural residential real estate	**3,486,452**	3,397,388
Total	**$ 280,462,307**	$ 281,657,383

The association purchases or sells 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 the balances of participations purchased and sold at March 31, 2020:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ -	$ 375,554	$ -	$ -	$ -	$ 375,554
Production and intermediate term	6,785,637	-	-	-	6,785,637	-
Agribusiness	25,414,180	-	-	-	25,414,180	-
Communication	7,023,207	-	-	-	7,023,207	-
Energy	4,669,827	-	-	-	4,669,827	-
Water and waste water	1,996,301	-	-	-	1,996,301	-
Total	$ 45,889,152	$ 375,554	$ -	$ -	$ 45,889,152	$ 375,554

The association is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the association on such balances. Balances of ACPs were $2,505 and $1,690 at March 31, 2020, and December 31, 2019, respectively.

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

	March 31, 2020	December 31, 2019
Nonaccrual loans:		
Real estate mortgage	**$ 3,088,661**	$ 2,403,445
Production and intermediate term	**10,826**	792,114
Total nonaccrual loans	**3,099,487**	3,195,559
Accruing restructured loans:		
Real estate mortgage	**2,703,430**	2,689,986
Total accruing restructured loans	**2,703,430**	2,689,986
Total nonperforming assets	**$ 5,802,917**	$ 5,885,545

One credit quality indicator utilized by the association is the Farm Credit Administration 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 as a percentage of total loans and related accrued interest receivable by loan type as of:

	March 31, 2020	December 31, 2019
Real estate mortgage		
Acceptable	**95.2 %**	95.6 %
OAEM	**3.2**	3.1
Substandard/doubtful	**1.6**	1.3
	100.0	100.0
Production and intermediate term		
Acceptable	**77.4**	90.8
OAEM	**22.5**	3.0
Substandard/doubtful	**0.1**	6.2
	100.0	100.0
Agribusiness		
Acceptable	**90.3**	88.6
OAEM	**9.7**	11.4
Substandard/doubtful	**-**	-
	100.0	100.0
Energy and water/waste water		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Communication		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Rural residential real estate		
Acceptable	**99.5**	99.5
OAEM	**0.5**	0.5
Substandard/doubtful	**-**	-
	100.0	100.0
Total loans		
Acceptable	**94.3**	95.1
OAEM	**4.4**	3.6
Substandard/doubtful	**1.3**	1.3
	100.0 %	100.0 %

The following tables provide an age analysis of past due loans (including accrued interest) as of:

March 31, 2020	**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**
Real estate mortgage	**$ 935,071**	**$ 879,854**	**$ 1,814,925**	**$ 225,433,310**	**$ 227,248,235**
Production and intermediate term	**-**	**-**	**-**	**12,282,984**	**12,282,984**
Loans to cooperatives	**-**	**-**	**-**	**5,297,956**	**5,297,956**
Processing and marketing	**-**	**-**	**-**	**19,390,402**	**19,390,402**
Farm-related business	**-**	**-**	**-**	**771,042**	**771,042**
Communication	**-**	**-**	**-**	**7,032,204**	**7,032,204**
Energy	**-**	**-**	**-**	**4,681,746**	**4,681,746**
Water and waste water	**-**	**-**	**-**	**2,006,524**	**2,006,524**
Rural residential real estate	**18,260**	**-**	**18,260**	**3,485,079**	**3,503,339**
Total	**$ 953,331**	**$ 879,854**	**$ 1,833,185**	**$ 280,381,247**	**$ 282,214,432**

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
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

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

As of March 31, 2020, the total recorded investment of troubled debt restructured loans was $3,920,184, including $1,216,754 classified as nonaccrual and $2,703,430 classified as accrual, with specific allowance for loan losses of $415,343. The specific allowance is determined quarterly through a net realizable value analysis for each individual loan asset. As of March 31, 2020 and at 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 three months ended March 31, 2020. Loans formally restructured prior to January 1, 2020, were $3,920,184.

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 that related to a modification for the quarter ending March 31, 2020.

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 we assess all 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 and for which there was a subsequent 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.

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 at:

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	March 31, 2020	December 31, 2019	March 31, 2020	December 31, 2019
Real estate mortgage	$ 3,910,888	$ 3,165,362	$ 1,207,458	$ -
Production and intermediate term	9,296	788,646	9,296	-
Total	$ 3,920,184	$ 3,954,008	$ 1,216,754	$ -

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

Additional impaired loan information is as follows:

	March 31, 2020			December 31, 2019		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	**$ 1,361,244**	**$ 1,368,212**	**$ 405,518**	$ 603,307	$ 603,307	$ 24,465
Production and intermediate term	**9,296**	**9,825**	**9,825**	789,659	789,659	402,637
Total	**$ 1,370,539**	**$ 1,378,037**	**$ 415,343**	$ 1,392,966	$ 1,392,966	$ 427,102
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 4,430,847**	**$ 4,429,890**	**$ -**	$ 4,490,124	$ 4,501,775	$ -
Production and intermediate term	**1,530**	**793,590**	**-**	2,455	796,015	-
Total	**$ 4,432,377**	**$ 5,223,480**	**$ -**	$ 4,492,579	$ 5,297,790	$ -
Total impaired loans:						
Real estate mortgage	**$ 5,792,091**	**$ 5,798,102**	**$ 405,518**	$ 5,093,431	$ 5,105,082	$ 24,465
Production and intermediate term	**$ 10,826**	**$ 803,415**	**$ 9,825**	792,114	1,585,674	402,637
Total	**$ 5,802,917**	**$ 6,601,517**	**$ 415,343**	$ 5,885,545	$ 6,690,756	$ 427,102

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

	For the Three Months Ended			
	March 31, 2020		March 31, 2019	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ 1,373,474**	**$ -**	$ -	$ -
Production and intermediate term	**9,685**	**-**	236,364	-
Total	**$ 1,383,160**	**$ -**	$ 236,364	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 4,459,069**	**$ 45,852**	$ 6,741,413	$ 137,647
Production and intermediate term	**2,364**	**150**	7,087	150
Total	**$ 4,461,433**	**$ 46,002**	$ 6,748,500	$ 137,797
Total impaired loans:				
Real estate mortgage	**$ 5,832,544**	**$ 45,852**	$ 6,741,413	$ 137,647
Production and intermediate term	**$ 12,049**	**$ 150**	243,451	150
Total	**$ 5,844,593**	**$ 46,002**	$ 6,984,864	$ 137,797

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at December 31, 2019	$ 719,322	$ 460,952	$ 51,437	$ 3,566	$ 6,069	$ 3,987	$ 1,245,333
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	1,500	-	-	-	-	1,500
Provision for loan losses	(2,571)	(3,739)	3,663	(109)	(326)	288	(2,794)
Balance at March 31, 2020	$ 716,751	$ 458,713	$ 55,100	$ 3,457	$ 5,743	$ 4,275	$ 1,244,039
Ending Balance:							
Individually evaluated for impairment	$ 405,518	$ 9,825	$ -	$ -	$ -	$ -	$ 415,343
Collectively evaluated for impairment	311,233	448,888	55,100	3,457	5,743	4,275	828,696
Balance at March 31, 2020	$ 716,751	$ 458,713	$ 55,100	$ 3,457	$ 5,743	$ 4,275	$ 1,244,039
Balance at December 31, 2018	$ 1,203,155	$ 62,480	$ 29,152	$ 2,112	$ 11,590	$ 3,981	$ 1,312,470
Charge-offs	(69,154)	-	-	-	-	-	(69,154)
Recoveries	-	1,500	-	-	-	-	1,500
Provision for loan losses	(354,872)	342,968	8,203	(183)	905	(424)	(3,403)
Balance at March 31, 2019	$ 779,129	$ 406,948	$ 37,355	$ 1,929	$ 12,495	$ 3,557	$ 1,241,413
Ending Balance:							
Individually evaluated for impairment	$ -	$ 347,176	$ -	$ -	$ -	$ -	$ 347,176
Collectively evaluated for impairment	779,129	59,772	37,355	1,929	12,495	3,557	894,237
Balance at March 31, 2019	$ 779,129	$ 406,948	$ 37,355	$ 1,929	$ 12,495	$ 3,557	$ 1,241,413

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:							
Ending Balance at March 31, 2020	$227,248,235	$ 12,282,984	$ 25,459,400	$ 7,032,204	$ 6,688,269	$3,503,340	$282,214,432
Individually evaluated for impairment	$ 5,792,091	$ 10,826	$ -	$ -	$ -	$ -	$ 5,802,917
Collectively evaluated for impairment	$221,456,144	$ 12,272,158	$ 25,459,400	$ 7,032,204	$ 6,688,269	$3,503,340	$276,411,515
Ending Balance at December 31, 2019	$231,830,467	$ 12,991,365	$ 21,440,267	$ 7,031,650	$ 6,476,342	$3,408,163	$283,178,254
Individually evaluated for impairment	$ 5,093,431	$ 792,114	$ -	$ -	$ -	$ -	$ 5,885,545
Collectively evaluated for impairment	$226,737,036	$ 12,199,251	$ 21,440,267	$ 7,031,650	$ 6,476,342	$3,408,163	$277,292,709

NOTE 3 — CAPITAL:

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

Regulatory Capitalization Requirements

Risk-adjusted:	**Regulatory Minimums**	**Conservation Buffer***	**Total**	**As of March 31, 2020**
Common equity tier 1 ratio	4.50%	2.50%	7.00%	21.56%
Tier 1 capital ratio	6.00%	2.50%	8.50%	21.56%
Total capital ratio	8.00%	2.50%	10.50%	22.04%
Permanent capital ratio	7.00%	0.00%	7.00%	21.66%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.00%	1.00%	5.00%	19.84%
UREE leverage ratio	1.50%	0.00%	1.50%	21.00%

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	**40,542,231**	**40,542,231**	**40,542,231**	**40,542,231**
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**1,071,153**	**1,071,153**	**1,071,153**	**1,071,153**
Nonqualified allocated equities not subject to retirement	**18,273,005**	**18,273,005**	**18,273,005**	**18,273,005**
Allowance for loan losses and reserve for credit losses subject to certain limitations			**1,246,560**	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(4,313,130)**	**(4,313,130)**	**(4,313,130)**	**(4,313,130)**
	55,573,259	55,573,259	56,819,819	55,573,259
Denominator:				
Risk-adjusted assets excluding allowance	**262,098,481**	**262,098,481**	**262,098,481**	**262,098,481**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**(4,313,130)**	**(4,313,130)**	**(4,313,130)**	**(4,313,130)**
Allowance for loan losses				**(1,246,560)**
	257,785,351	257,785,351	257,785,351	256,538,791

(dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	**40,542,231**	**40,542,231**
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	**1,071,153**	-
Nonqualified allocated equities not subject to retirement	**18,273,005**	**18,273,005**
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	**(4,313,130)**	**-**
	55,573,259	**58,815,236**
Denominator:		
Total Assets	**285,482,721**	**285,482,721**
Regulatory Adjustments and Deductions:		**-**
Regulatory deductions included in tier 1 capital	**(5,425,135)**	**(5,425,135)**
	280,057,586	280,057,586

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

Accum Other Comp Income (Loss)			
March 31, 2020	**Before Tax**	**Deferred Tax**	**Net of Tax**
Nonpension postretirement benefits	**$ 25,693**	**$ -**	**$ 25,693**
Total	**$ 25,693**	**$ -**	**$ 25,693**
March 31, 2019	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	$ 58,142	$ -	$ 58,142
Total	$ 58,142	$ -	$ 58,142

The association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income (loss) for the three months ended March 31:

	2020	2019
Accumulated other comprehensive income (loss) at January 1	**$ 26,084**	$ 59,139
Amortization of prior service (credit) costs included in salaries and employee benefits	**(391)**	(391)
Amortization of actuarial (gain) loss included in salaries and employee benefits	**-**	(606)
Other comprehensive income (loss), net of tax	**(391)**	(997)
Accumulated other comprehensive income (loss) at March 31	**$ 25,693**	$ 58,142

NOTE 4 — INCOME TAXES:

Legacy Ag Credit, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Legacy Ag Credit, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Legacy Ag Credit, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized.

NOTE 5 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 13 to the 2019 Annual Report to Stockholders for a more complete description.

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

March 31, 2020	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans*	**$ -**	**$ -**	**$ 955,196**	**$ 955,196**

December 31, 2019	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$1,875,594	$ 1,875,594

*Represents the fair value of certain loans that were evaluated for impairment under the authoritative guidance "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

Information About Nonrecurring Level 3 Fair Value Measurements

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 13 to the 2019 Annual Report to Stockholders, authoritative 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. The following represent a brief summary of the valuation techniques used for the association's assets and liabilities. For a more complete description, see Notes to the 2019 Annual Report to Stockholders.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB 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.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three months ended March 31:

	Other Benefits	
	2020	2019
Service cost	**$ 2,097**	$ 1,696
Interest cost	**2,256**	2,732
Amortization of prior service (credits) costs	**(391)**	(391)
Amortization of net actuarial (gain) loss	**-**	(606)
Net periodic benefit cost	**$ 3,962**	$ 3,431

The association's liability for the unfunded accumulated obligation for these benefits at March 31, 2020, was $270,321 and is included in other liabilities on the balance sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "other components of net periodic postretirement benefit cost" in the income statement.

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations). The association recognizes its amortized annual contributions to the plan as an expense. The association previously disclosed in its financial statements for the year ended December 31, 2019, that it expected to contribute $0 to the district's defined benefit pension plan in 2020. As of March 31, 2020, $0 of contributions have been made.

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:

The association is involved in various legal proceedings in the normal 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

NOTE 8 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through May 6, 2020, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of May 6, 2020.