

Annual Report 2020



Part of the Farm Credit System

Letter to Stockholders

On behalf of the Board of Directors and staff of Legacy Ag Credit, ACA, we are pleased to present our 2020 Annual Report and financial results.

Despite the many challenges, including the COVID-19 pandemic, we are pleased to report that 2020 was a successful year for the association. We had increases in total member loans outstanding, net income and patronage.

The COVID-19 virus impacted Legacy's operations in 2020. Because of federal, state, and local mandates, Legacy operated in a more restricted environment during much of 2020. We operated with employees working remotely, and we had to close some of our offices to the public during portions of the year. We had several employees who were impacted directly by the virus or whose family was affected. We offered interest-only payment options and complete loan payment deferrals to member borrowers that were impacted by the more restricted economic environment associated with the virus.

However, the COVID-19 virus also had a positive impact on association operations in 2020. Like much of the country, Legacy saw a surge in borrowers seeking financing for rural homes and recreational land. As the country adapted to lockdowns and restricted public gatherings, businesses transitioned to a remote work environment for many of their employees. The result, as more and more employees were able to work remotely, was a substantial increase in demand for rural property and a rural lifestyle.

Total assets were \$308.0 million at December 31, 2020, compared to \$289.0 million at December 31, 2019, a \$19.0 million or 6.6% increase. Net loans outstanding totaled \$298.0 million at December 31, 2020, compared to \$280.4 million at December 31, 2019, a \$17.6 million or 6.3% increase. Net income was \$4.5 million for 2020, compared to \$4.0 million for 2019. Member's equity was \$63.1 million or 20.5% of total assets at December 31, 2020, compared to \$61.0 million or 21.1% of total assets at December 31, 2019. At December 31, 2020, approximately 99.4% of the association's loans were considered acceptable credit quality, compared to 98.7% at December 31, 2019.

We are pleased to announce that the Board has declared a cash patronage of \$2.5 million or approximately 56% of our 2020 net income. With this patronage payment, the association will have returned approximately \$14 million to our members over the past six years. The patronage will be paid in March 2021 and represents approximately 1.00% of the average member's outstanding 2020 loan balance.

Legacy completed the construction of new office locations in Terrell and Longview in 2020. Both offices are fully staffed and reaching additional customers in these key areas of our lending territory.

2020 was our first year for offering Legacy Scholarships to high school seniors. Legacy awarded \$20,000 in scholarships to graduating students that reside in Legacy's territory, have been involved in agriculture, and have expressed a desire to continue their education.

We are also pleased to announce that we have created a committee of member borrowers that will assist the association in focusing lending efforts to Young, Beginning, and Small Farmers (YBS). The YBS Committee will meet periodically each year to advise the association on how it can reach more YBS borrowers.

Finally, we would like to thank you for your continued support of Legacy and personally extend an invitation and encourage each of you to attend our annual stockholder meeting, which we plan to hold in May of 2021.

A handwritten signature in black ink, appearing to read 'Terry Milligan', with a large, stylized circular flourish at the end.

Terry Milligan
Chairman, Board of Directors

A handwritten signature in black ink, appearing to read 'Derrell W. Chapman', with a long, horizontal flourish extending to the right.

Derrell W. Chapman, CPA,
Chief Executive Officer

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REPORT OF MANAGEMENT

The consolidated financial statements of Legacy Ag Credit, ACA (association or Legacy) 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 information systems provided by the Farm Credit Bank of Texas (FCBT or bank) and the association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The consolidated financial statements are audited by PricewaterhouseCoopers LLP (PwC), 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 (FCA).

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 16, 2021



Terry Milligan, Chairman, Board of Directors
March 16, 2021



Heather Johnson, CPA, Controller
March 16, 2021

REPORT OF AUDIT COMMITTEE

The Audit Committee is composed of directors Cheryl Scott, Terry Milligan, Cody Newman and Danny Evans. The committee met nineteen times in 2020, either in person or by teleconference. The committee oversees the scope of Legacy'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's website. The committee approved the appointment of PwC as the association's independent auditor for 2020.

Management is responsible for Legacy'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'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's audited consolidated financial statements for the year ended December 31, 2020 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's internal auditors directly provide reports on significant matters to the committee.

The committee discussed with PwC its independence from Legacy. 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's Annual Report to Stockholders for the year ended December 31, 2020.

Audit Committee Members

Cheryl Scott, CPA, Chairman
Terry Milligan
Cody Newman
Danny Evans

March 16, 2021

LEGACY AG CREDIT, ACA

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

(unaudited)

(dollars in thousands)

	2020	2019	2018	2017	2016
<u>Balance Sheet Data</u>					
<u>Assets</u>					
Cash	\$ 129	\$ 126	\$ 127	\$ 105	\$ 122
Loans	299,171	281,657	263,318	246,433	238,026
Less: allowance for loan losses	1,173	1,245	1,312	1,303	2,081
Net loans	297,998	280,412	262,006	245,130	235,945
Investment in and receivable from the Farm Credit Bank of Texas	4,735	4,562	4,442	3,894	3,819
Other property owned, net	-	-	49	-	222
Other assets	5,162	3,887	2,198	1,931	1,935
Total assets	<u>\$ 308,024</u>	<u>\$ 288,987</u>	<u>\$ 268,822</u>	<u>\$ 251,060</u>	<u>\$ 242,043</u>
<u>Liabilities</u>					
Obligations with maturities of one year or less	\$ 1,554	\$ 1,717	\$ 1,403	\$ 3,485	\$ 1,439
Obligations with maturities greater than one year	243,375	226,308	208,102	192,116	184,010
Total liabilities	<u>244,929</u>	<u>228,025</u>	<u>209,505</u>	<u>195,601</u>	<u>185,449</u>
<u>Members' Equity</u>					
Capital stock and participation certificates	1,084	1,079	1,075	1,107	1,112
Unallocated retained earnings	62,004	59,857	58,183	54,313	55,405
Accumulated other comprehensive income (loss)	7	26	59	39	77
Total members' equity	<u>63,095</u>	<u>60,962</u>	<u>59,317</u>	<u>55,459</u>	<u>56,594</u>
Total liabilities and members' equity	<u>\$ 308,024</u>	<u>\$ 288,987</u>	<u>\$ 268,822</u>	<u>\$ 251,060</u>	<u>\$ 242,043</u>
<u>Statement of Income Data</u>					
Net interest income	\$ 8,153	\$ 8,108	\$ 7,862	\$ 7,556	\$ 7,526
(Provision for loan losses) loan loss reversal	85	61	165	201	272
Income from the Farm Credit Bank of Texas	1,409	1,129	980	811	850
Other noninterest income	487	286	381	363	280
Noninterest expense	(5,621)	(5,610)	(5,519)	(5,523)	(5,044)
Net income (loss)	<u>\$ 4,513</u>	<u>\$ 3,974</u>	<u>\$ 3,869</u>	<u>\$ 3,408</u>	<u>\$ 3,884</u>
<u>Key Financial Ratios for the Year</u>					
Return on average assets	1.5%	1.4%	1.5%	1.4%	1.6%
Return on average members' equity	7.4%	6.7%	6.7%	6.0%	7.1%
Net interest income as a percentage of average earning assets	2.8%	2.9%	3.0%	3.2%	3.1%
Net charge-offs (recoveries) as a percentage of average loans	-.005%	.002%	-.070%	.200%	.002%

LEGACY AG CREDIT, ACA

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

	2020	2019	2018	2017	2016
<u>Key Financial Ratios at Year End *</u>					
Members' equity as a percentage of total assets	20.5%	21.1%	22.1%	22.1%	23.4%
Debt as a percentage of members' equity	388.2%	374.0%	353.2%	352.7%	327.7%
Allowance for loan losses as a percentage of loans	.4%	.4%	.5%	.5%	.9%
Common equity tier 1 ratio	20.6%	21.4%	21.8%	22.8%	n/a
Tier 1 capital ratio	20.6%	21.4%	21.8%	22.8%	n/a
Total capital ratio	21.1%	21.9%	22.3%	23.6%	n/a
Permanent capital ratio	20.7%	21.5%	21.9%	23.0%	22.8%
Tier 1 leverage ratio	18.9%	19.7%	20.5%	21.7%	n/a
UREE leverage ratio	20.0%	20.8%	21.4%	22.8%	n/a
Total surplus ratio	n/a	n/a	n/a	n/a	22.4%
Core surplus ratio	n/a	n/a	n/a	n/a	22.4%
<u>Net Income Distribution</u>					
Cash dividends	\$ 2,400	\$ 2,300	\$ 2,100	\$ 2,400	\$ 2,200

*Effective January 1, 2017, new regulatory capital ratios were implemented by the association. The association's ratios remained above the regulatory minimums, including the conservation and leverage buffers at December 31, 2020. For more information, see Note 9, "Members Equity," in the accompanying financial statements.

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, including its wholly owned subsidiaries, Legacy, PCA and Legacy Land Bank, FLCA for the years ended December 31, 2020, 2019 and 2018, 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 2020, the association received a direct loan patronage of \$1,305,668 or approximately 56 basis points on the average daily balance of the association's direct loan in 2020. The association received \$103,693 in dividends 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 2021, the board of directors approved a patronage payment of \$2,470,000 related to 2020 earnings, which will be paid in March 2021.

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.

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.

Conditions in Association's Territory

During 2021, agricultural producers may be negatively affected by several factors, including volatile commodity prices, export market disruptions, a slowing economy and weather-related challenges. The Association is in the process of evaluating the potential impact of the historically low temperatures observed across its territory in February 2021. While the assessment of the full effect on the association's borrowers is on-going, this most recent weather event is not expected to have a significant adverse impact on the association's overall financial condition and results of operations. The association loan portfolio is well-supported by industry diversification, conservative advance rates, and other credit enhancements. Additionally, a high percentage of the association's borrowers primarily rely on non-farm sources of income to repay their loans.

COVID-19 Discussion:

Legacy Ag Credit, ACA has been operating under a presidentially 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 initially operated under a restricted access environment for customers. Face-to-face meetings with customers were managed on an appointment-only basis. Lobby access was closed to customers. The association staff worked remotely on a rotating basis. None of these actions resulted in diminished ability for the association to serve its members and prospective members.

Since May 6, 2020, the association has reopened its lobby to customer access. However, as prescribed by various local governmental entities, employees are wearing face coverings when interacting with persons inside Legacy locations. Legacy provides face coverings to any person entering one of our office locations.

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. Approximately thirty loans totaling \$10 million were offered deferrals or interest-only payments for a temporary time. At the time of this report, none of these borrowers was in default and all had returned to normal payment status. 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 December 31, 2020, and the date of this report, there have been no additional significant delinquencies or negative 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:

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.

On December 18, 2020, the FCA posted an informational memorandum providing guidance to Farm Credit System institutions on the transition away from LIBOR, in which they emphasized that Farm Credit System institutions should continue reducing LIBOR exposures as soon as practicable. The guidance encouraged institutions to adopt 2021 transition plans with steps and timeframes to accomplish the following: reduce LIBOR exposure, stop the inflow of new LIBOR volume, develop and implement loan products with alternative reference rates, assess and, if necessary, revise fallback language on legacy LIBOR indexed loans and contracts, adjust operations processes, including accounting and management information systems to handle alternative reference rates, and communicate pending or imminent changes to customers, as appropriate.

The composition of the association's loan portfolio, including principal less funds held of \$299,170,905, \$281,657,383 and \$263,318,709 as of December 31, 2020, 2019 and 2018, respectively, is described more fully in detailed tables in Note 3, "Loans and Allowance for Loan Losses" to the consolidated financial statements.

Purchase and Sales of Loans:

The association routinely purchases loans from other lenders. At December 31, 2020, 2019 and 2018, participations purchased totaled \$47,508,601, \$41,654,380 and \$36,265,612, or 15.9%, 14.8% and 13.8% of loans, respectively. At December 31, 2020, 2019 and 2018, the association had sold participations to other lenders of \$367,270, \$378,537 and \$395,826.

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:

	2020		2019		2018	
	Amount	%	Amount	%	Amount	%
Nonaccrual	\$ 2,366,324	49.2%	\$ 3,195,559	54.3%	\$ 1,376,052	31.8%
Formally restructured	2,443,488	50.8%	2,689,986	45.7%	2,899,964	67.0%
Other property owned, net	-	0.0%	-	0.0%	49,290	1.1%
Total	\$ 4,809,812	100.0%	\$ 5,885,545	100.0%	\$ 4,325,306	99.9%

At December 31, 2020, 2019 and 2018, loans that were considered impaired were \$4,809,812, \$5,885,545 and \$4,276,016, representing 1.6%, 2.1% and 1.6% of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

The association held no properties classified as other property owned at December 31, 2020.

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, 10 acres of unimproved land. The fair value of the property was \$54,000 with a net book balance of \$49,290. During 2018, there were two sales of other property owned that resulted in a net gain of \$36,028.

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:

	2020	2019	2018
Allowance for loan losses	\$ 1,173,442	\$ 1,245,333	\$ 1,312,470
Allowance for loan losses to total loans	0.4%	0.4%	0.5%
Allowance for loan losses to nonaccrual loans	49.6%	39.0%	95.4%
Allowance for loan losses to impaired loans	24.4%	21.2%	30.7%
Net charge-offs to average loans	-0.005%	0.002%	-0.070%

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. As a result of the COVID-19 virus in 2020 and the uncertainty of its impact on association borrowers, the association allocated a portion of its allowance to possible COVID-19 related loan losses.

Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of \$1,173,442, \$1,245,333, and \$1,312,470 at December 31, 2020, 2019 and 2018, respectively, were 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, 2020, was \$4,512,969 as compared to \$3,974,236 for the year ended December 31, 2019, an increase of \$538,733, or 13.6%. The association's net income for the year ended December 31, 2018, was \$3,869,134, an increase of \$105,102, or 2.7%, in 2019 compared to 2018.

Net interest income for 2020, 2019 and 2018 was \$8,152,981, \$8,107,873 and \$7,862,079, respectively, an increase of \$45,108, or .56%, in 2020 compared to 2019 and \$245,794, or 3.13, in 2019 compared to 2018. 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:

	2020		2019		2018	
	Average Balance	Interest	Average Balance	Interest	Average Balance	Interest
Loans	\$ 287,046,470	\$ 14,025,794	\$ 271,724,850	\$ 14,826,124	\$ 257,175,120	\$ 13,618,656
Interest-bearing liabilities	232,772,771	5,872,813	217,297,015	6,718,251	203,023,250	5,756,577
Impact of capital	<u>\$ 54,273,699</u>		<u>\$ 54,427,835</u>		<u>\$ 54,151,870</u>	
Net interest income		<u>\$ 8,152,981</u>		<u>\$ 8,107,873</u>		<u>\$ 7,862,079</u>

	2020	2019	2018
	Average Yield	Average Yield	Average Yield
Yield on loans	4.88%	5.45%	5.30%
Cost of interest-bearing liabilities	2.52%	3.09%	2.84%
Interest rate spread	2.36%	2.36%	2.46%

Interest income for 2020 decreased by \$800,330, or 5.4%, compared to 2019, primarily due to declines in yields on earning assets, which were partially offset by an increase in average loan volume. Interest expense for 2020 decreased by \$845,438, or 12.6%, compared to 2019 due to a decrease in cost of interest-bearing liabilities, which was partially offset by an increase in average debt volume. The interest rate spread remained unchanged in 2020 from 2019. Interest rate spread decreased by 10 basis points to 2.36% in 2019 compared to 2.46% in 2018, primarily because of the changes in interest income and expense.

Noninterest income for 2020 increased by \$480,292, or 33.9% percent, compared to 2019, due primarily to an increase in loan fees and an increase in patronage income from the bank. 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 which were partially offset by a reduction in nonrecurring refunds from the Farm Credit System Insurance Corporation.

Reversal of loan losses increased by \$24,552, or 40.4%, compared to 2019, due primarily to a decrease 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 slightly by \$11,219, or 0.2 percent, in 2020 compared to 2019 primarily due to occupancy expenses related to the opening of branch offices in Terrell and Longview offset by significant savings in other expense components due to COVID-19 restrictions. The increase in operating expenses included an increase of \$31,397 in premiums to the Insurance Fund, with premium rates of 9 basis points in 2019 and 11 basis points in 2020.

For the year ended December 31, 2020, the association's return on average assets was 1.5%, as compared to 1.4% and 1.5% for the years ended December 31, 2019 and 2018, respectively. For the year ended December 31, 2020, the association's return on average members' equity was 7.4%, as compared to 6.7% and 6.7% for the years ended December 31, 2019 and 2018, 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 \$242,927,735, \$225,732,667 and \$207,561,145 as of December 31, 2020, 2019 and 2018, respectively, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 2.52%, 3.09% and 2.84% at December 31, 2020, 2019 and 2018, 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, 2019, 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 \$54,973,786, \$54,841,828 and \$54,838,962 at December 31, 2020, 2019 and 2018, respectively. Based on association loan volume, the maximum amount the association may borrow from the bank as of December 31, 2020, was \$294,337,583 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, 2021. The agreement can be 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 2021. 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 total members' equity was \$63,095,640, \$60,961,889 and \$59,316,525 at December 31, 2020, 2019 and 2018, respectively. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The association's permanent capital ratio at December 31, 2020, 2019 and 2018 was 20.7%, 21.5%, and 21.9%, respectively.

Under 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, 2020. 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 20.6 percent 21.4 percent and 21.8 percent at December 31, 2020, 2019 and 2018, 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 20.6 percent 21.4 percent and 21.8 percent at December 31, 2020, 2019 and 2018, 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 21.1 percent 21.9 percent and 22.3 percent at December 31, 2020, 2019 and 2018, respectively.

Under 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 UREE equivalents. This is the UREE leverage ratio. The association's tier 1 leverage ratio was 18.9, 19.7 and 20.5 percent at December 31, 2020, 2019 and 2018, respectively. The association's UREE leverage ratio was 20.0, 20.8 and 21.4 percent at December 31, 2020, 2019 and 2018, respectively.

Refer to Note 9, "Members' Equity," to the consolidated financial statements 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”, for disclosures of recent accounting pronouncements which may impact the associations consolidated financial position and results of operations and for critical accounting policies.

Regulatory Matters:

At December 31, 2020, the association was under normal supervision with the Farm Credit Administration.

On February 13, 2020, the Farm Credit Administration board approved a final rule to modify eligibility criteria that outside directors must meet to serve on the boards of System institutions. The final rule strengthens the independence of System institution boards by expanding the list of persons who are excluded from serving as outside directors. It finalizes a proposed rule that was published in the Federal Register on August 24, 2018. The final rule differs from the proposed rule in the following respects:

- Limits the application of the immediate family member criteria to only the outside director's institution, that institution's Funding Bank, or any affiliated organization in which that institution has an ownership interest;
- Changes the term “borrower” by inserting the word “current” in the definition to clarify that the eligibility criteria do not include former borrowers; and
- Changes the definition of “controlling interest” to increase the equity percentage from 5% to 10%.

On March 17, 2020, the Farm Credit Administration published a news release encouraging Farm Credit System institutions to work with System borrowers whose operations have been affected by COVID-19 and the measures taken to prevent its spread. System institutions can help alleviate stress for borrowers affected by COVID-19 in several ways:

- Extending the terms of loan repayments;
- Restructuring borrowers' debt obligations; and
- Easing some loan documentation or credit-extension terms for new loans to certain borrowers.

The agency also offered temporary relief from certain regulatory and reporting requirements to System institutions affected by the pandemic.

On March 27, 2020, the FCA posted an informational memorandum providing guidance to Farm Credit System institutions about their role in ensuring critical infrastructure services and functions during the COVID-19 pandemic.

On April 1, 2020, the FCA posted an informational memorandum providing guidance to Farm Credit System institutions on reporting troubled debt restructurings for customers affected by the national emergency declaration for the COVID-19 outbreak.

On April 3, 2020, the FCA posted an informational memorandum providing guidance to Farm Credit System institutions on the Paycheck Protection Program for small businesses affected by the COVID-19 pandemic. This memorandum was superseded and replaced by an information memorandum on the same subject which the FCA posted on April 7, 2020, together with the FCA's brief supplement explaining that the statutory borrower stock requirement does not apply to loans made under the Paycheck Protection Program. The April 7, 2020, informational memorandum was subsequently superseded and replaced by an updated informational memorandum which the FCA posted on June 18, 2020, and again superseded and replaced by an updated informational memorandum which the FCA posted on July 15, 2020. The supplement to the informational memorandum was also updated.

On June 25, 2020, the FCA, together with four other federal agencies, published a final rule finalizing changes to their swap margin rule to facilitate the implementation of prudent risk management strategies at banks and other entities with significant swap activities. On July 1, 2020, a final rule and interim final rule on margin and capital requirements for covered swap entities were published in the Federal Register. The final rule became effective on August 31, 2020. The interim final rule became effective September 1, 2020.

On August 25, 2020, the FCA published a Final Rule in the Federal Register on Criteria to Reinstate Nonaccrual Loans. The final rule objectives 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.

This regulation became effective on October 21, 2020.

On September 10, 2020, the FCA published a proposed rule in the Federal Register outlining amendments and clarifications to the tier 1/tier 2 regulatory capital framework. The comment period ended on November 9, 2020.

On September 28, 2020, the FCA published a final rule in the Federal Register on Amortization Limits repealing the regulatory requirement that production credit associations (PCAs) amortize their loans in 15 years or less, while requiring System associations to address amortization through their credit underwriting standards and internal controls. This regulation became effective on November 19, 2020.

In 2020, 2019 and 2018, the association paid patronage of \$2,365,866, \$2,299,643 and \$2,100,022, respectively. See Note 9, "Members' Equity," to the consolidated financial statements.

Relationship with the Bank:

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

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

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

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, "Related Party Transactions," to the consolidated financial statements, 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, 2020, December 31, 2019, and December 31, 2018, 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, ACA and its subsidiaries as of December 31, 2020, December 31, 2019, and December 31, 2018, 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.

A handwritten signature in cursive script, appearing to read 'PricewaterhouseCoopers LLP'.

March 12, 2021

LEGACY AG CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	December 31,		
	2020	2019	2018
<u>Assets</u>			
Cash	\$ 129,112	\$ 125,999	\$ 126,946
Loans	299,170,905	281,657,383	263,318,709
Less: allowance for loan losses	1,173,442	1,245,333	1,312,470
Net loans	297,997,463	280,412,050	262,006,239
Accrued interest receivable	1,262,126	1,520,871	1,284,169
Investment in and receivable from the Farm Credit Bank of Texas:			
Capital stock	4,627,995	4,313,130	4,029,425
Other	106,787	248,698	412,621
Other property owned, net	-	-	49,290
Premises and equipment	3,738,864	2,195,177	752,579
Other assets	162,045	171,453	160,833
Total assets	<u>\$ 308,024,392</u>	<u>\$ 288,987,378</u>	<u>\$ 268,822,102</u>
<u>Liabilities</u>			
Note payable to the Farm Credit Bank of Texas	\$ 242,927,735	\$ 225,732,667	\$ 207,561,145
Advance conditional payments	5,782	1,690	10,007
Accrued interest payable	446,790	575,828	546,755
Drafts outstanding	118,372	285,122	47,964
Other liabilities	1,430,074	1,430,183	1,339,706
Total liabilities	<u>244,928,753</u>	<u>228,025,490</u>	<u>209,505,577</u>
<u>Members' Equity</u>			
Capital stock and participation certificates	1,084,410	1,078,665	1,074,840
Unallocated retained earnings	62,004,242	59,857,139	58,182,546
Accumulated other comprehensive income (loss)	6,987	26,084	59,139
Total members' equity	<u>63,095,639</u>	<u>60,961,888</u>	<u>59,316,525</u>
Total liabilities and members' equity	<u>\$ 308,024,392</u>	<u>\$ 288,987,378</u>	<u>\$ 268,822,102</u>

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

Legacy Ag Credit, ACA — 2020 Annual Report

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2020	2019	2018
<u>Interest Income</u>			
Loans	\$ 14,025,794	\$ 14,826,124	\$ 13,618,656
<u>Interest Expense</u>			
Note payable to the Farm Credit Bank of Texas	5,872,813	6,718,205	5,756,525
Advance conditional payments	-	46	52
Total interest expense	5,872,813	6,718,251	5,756,577
Net interest income	8,152,981	8,107,873	7,862,079
Provision for loan losses (loan loss reversal)	(85,329)	(60,777)	(165,265)
Net interest income after provision for losses (loan loss reversal)	8,238,310	8,168,650	8,027,344
<u>Noninterest Income</u>			
Income from the Farm Credit Bank of Texas:			
Patronage income	1,409,361	1,129,076	979,573
Loan fees	362,037	139,427	78,544
Refunds from Farm Credit System Insurance Corporation	44,048	46,063	135,518
Financially related services income	185	285	341
Gain on other property owned, net	-	8,724	36,028
(Loss) gain on sale of premises and equipment, net	(1,773)	16,428	32,973
Other noninterest income	81,652	75,215	97,380
Total noninterest income	1,895,510	1,415,218	1,360,357
<u>Noninterest Expenses</u>			
Salaries and employee benefits	3,480,528	3,511,667	3,460,902
Directors' expense	143,719	204,638	192,226
Purchased services	482,514	436,669	473,155
Travel	203,117	295,929	242,570
Occupancy and equipment	382,385	279,055	236,990
Communications	106,530	90,552	122,518
Advertising	108,301	130,628	92,903
Public and member relations	173,221	168,918	112,657
Supervisory and exam expense	107,546	114,931	114,849
Insurance Fund premiums	245,389	213,992	203,539
Provision for other property owned	-	-	72,217
Loss on other property owned, net	-	1,633	15,829
Other components of net periodic postretirement benefit cost	7,458	6,940	3,473
Other noninterest expense	180,143	154,080	174,739
Total noninterest expenses	5,620,851	5,609,632	5,518,567
NET INCOME	4,512,969	3,974,236	3,869,134
Other comprehensive income:			
Change in postretirement benefit plans	(19,097)	(33,055)	20,208
COMPREHENSIVE INCOME	\$ 4,493,872	\$ 3,941,181	\$ 3,889,342

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

Legacy Ag Credit, ACA — 2020 Annual Report

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, 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
Comprehensive income	-	4,512,969	(19,097)	4,493,872
Capital stock/participation certificates issued	188,855			188,855
Preferred stock retired				
Capital stock/participation certificates and allocated retained earnings retired	(183,110)			(183,110)
Patronage paid		(2,365,866)		(2,365,866)
Balance at December 31, 2020	\$ 1,084,410	\$ 62,004,242	\$ 6,987	\$ 63,095,639

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

Legacy Ag Credit, ACA — 2020 Annual Report

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2020	2019	2018
Cash flows from operating activities:			
Net income	\$ 4,512,969	\$ 3,974,236	\$ 3,869,134
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses (loan loss reversal)	(85,329)	(60,777)	(165,265)
Provision for other property owned	-	-	72,217
Gain on sale of other property owned, net		(8,724)	(36,028)
Depreciation	275,925	261,244	207,628
Amortization (accretion) of net (premiums) discounts in investments			
Loss (gain) on sale of premises and equipment, net	1,773	(16,428)	(32,973)
Decrease (increase) in accrued interest receivable	258,745	(236,702)	(154,308)
Decrease (increase) in other receivables from the Farm Credit Bank	141,911	163,923	(213,235)
Decrease (increase) in other assets	9,408	(10,620)	4,324
(Decrease) increase in accrued interest payable	(129,038)	29,073	130,203
(Decrease) increase in other liabilities	(19,206)	57,422	11,193
Net cash provided by operating activities	4,967,158	4,152,647	3,692,890
Cash flows from investing activities:			
Increase in loans, net	(17,606,976)	(18,511,269)	(17,452,978)
Cash recoveries of loans previously charged off	13,438	74,253	175,104
Proceeds from purchase of investment in the Farm Credit Bank of Texas	(314,865)	(283,705)	(334,350)
Purchases of premises and equipment	(1,737,710)	(1,663,592)	(279,545)
Proceeds from sales of premises and equipment	9,779	68,160	60,250
Proceeds from sales of other property owned	-	58,014	409,677
Net cash used in investing activities	(19,636,334)	(20,258,139)	(17,421,842)

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

Legacy Ag Credit, ACA — 2020 Annual Report

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2020	2019	2018
Cash flows from financing activities:			
Net draws on note payable to the Farm Credit Bank of Texas	17,195,068	18,171,522	15,860,570
(Decrease) increase in drafts outstanding	(166,750)	237,158	42,869
Increase (decrease) in advance conditional payments	4,092	(8,317)	(20,587)
Issuance of capital stock and participation certificates	188,855	140,555	123,610
Retirement of capital stock and participation certificates	(183,110)	(136,730)	(155,275)
Cash dividends paid	(2,365,866)	(2,299,643)	(2,100,022)
Patronage distributions paid	-	-	-
Net cash provided by financing activities	14,672,289	16,104,545	13,751,165
Net increase (decrease) in cash	3,113	(947)	22,213
Cash at the beginning of the year	125,999	126,946	104,733
Cash at the end of the year	\$ 129,112	\$ 125,999	\$ 126,946
Supplemental schedule of noncash investing and financing activities:			
Loans transferred to other property owned	-	-	495,154
Loans charged off	-	80,613	-
Supplemental cash information:			
Cash paid during the year for:			
Interest	\$ 6,001,851	\$ 6,689,178	\$ 5,726,374

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

Legacy Ag Credit, ACA — 2020 Annual Report

LEGACY AG CREDIT, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND OPERATIONS:

- A. Organization: Legacy Ag Credit, ACA, including its wholly owned subsidiaries, Legacy, PCA and Legacy Land Bank, FLCA (collectively called “the association”), is a member owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Franklin, Gregg, Harrison, Hopkins, Kaufman, Marion, Rains, Upshur, Van Zandt and Wood in the state of Texas.

The association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act). At December 31, 2020, 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, 2020, 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% 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% 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.

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 March 2020, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), which provides relief from certain requirements under GAAP, was signed into law. Section 4013 of the CARES Act gives entities temporary relief from the accounting and disclosure requirements for troubled debt restructurings (TDRs) and if certain criteria are met these loan modifications may not need to be classified as TDRs. System entities have adopted this relief for qualifying loan modifications. In response to the CARES Act, the Farm Credit Administration issued guidance allowing for temporary relief from accounting and disclosure requirements for TDRs. This TDR guidance applied to modifications made beginning March 1, 2020 and terminated on December 31, 2020.

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled “Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. New contracts entered into before December 31, 2021 will either utilize a reference rate other than LIBOR or have robust fallback language that includes a clearly defined alternative reference rate. These actions are necessary to facilitate an orderly transition.

In December 2019, the 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; nor did the guidance impact the presentation of taxes for prior periods in the 2020 year-end financial statements.

In August 2018, the 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. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance did not impact the association's financial condition or its results of operations, but did 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 2019. 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 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, with planned adoption for interim and reporting periods beginning after December 15, 2022.

- 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 forty years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of ten 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. 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.

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% 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% of the average outstanding balance of borrowings from the bank to a maximum of 5% 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% of eligible pay for the year ended December 31, 2020, 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 \$142,626, \$145,866 and \$139,364 for the years ended December 31, 2020, 2019 and 2018 respectively. For the DB plan, the association recognized pension costs of \$0 for the years ended December 31, 2020, 2019 and 2018, respectively.

The association also participates in the Farm Credit Benefits Alliance 401(k) Plan, which requires the associations to match 100% of employee contributions up to 3.0% of eligible earnings and to match 50% of employee contributions for the next 2.0% of employee contributions, up to a maximum employer contribution of 4.0% of eligible earnings. Association 401(k) plan costs are expensed as incurred. The association's contributions to the 401(k) plan were \$110,697, \$113,788 and \$109,413 for the years ended December 31, 2020, 2019 and 2018, respectively.

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

Loan Type	2020		2019		2018	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 242,553,449	81.1%	\$ 230,619,494	81.9%	\$ 217,039,403	82.4%
Agribusiness:	-					
Processing and marketing	17,704,087	5.9%	18,519,930	6.6%	18,082,298	6.9%
Loans to cooperatives	3,342,306	1.1%	2,322,849	0.8%	1,935,072	0.7%
Farm-related business	3,055,217	1.0%	555,171	0.2%	703,844	0.3%
Production and intermediate term	11,487,905	3.8%	12,777,483	4.5%	12,678,345	4.8%
Communication	8,899,085	3.0%	7,031,161	2.5%	2,885,865	1.1%
Energy	4,700,512	1.6%	4,437,817	1.6%	4,102,815	1.6%
Rural residential real estate	4,389,411	1.5%	3,397,388	1.2%	3,895,823	1.5%
Water and waste water	3,038,933	1.0%	1,996,090	0.7%	1,995,244	0.8%
Total	\$ 299,170,905	100.0%	\$ 281,657,383	100.0%	\$ 263,318,709	100.1%

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, 2020:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations	Participations	Participations	Participations	Participations	Participations
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Agribusiness	\$ 24,101,611	\$ -	\$ -	\$ -	\$ 24,101,611	\$ -
Communication	8,899,085	-	-	-	8,899,085	-
Production and intermediate term	6,768,462	-	-	-	6,768,462	-
Energy	4,700,511	-	-	-	4,700,511	-
Water and waste water	3,038,932	-	-	-	3,038,932	-
Real estate mortgage	-	367,270	-	-	-	367,270
Total	\$ 47,508,601	\$ 367,270	\$ -	\$ -	\$ 47,508,601	\$ 367,270

Geographic Distribution

The following percentages are based on the borrower's physical location, the borrower's headquarter location, or the physical location of the underlying collateral where applicable:

County	2020	2019	2018
Hopkins	12.9%	12.5%	13.0%
Van Zandt	11.2%	12.1%	13.8%
Wood	11.1%	10.8%	9.6%
Kaufman	6.9%	7.9%	8.9%
Upshur	6.3%	6.5%	6.1%
Harrison	4.2%	3.8%	4.7%
Franklin	3.6%	3.5%	4.1%
Rains	2.5%	1.9%	1.7%
Marion	1.7%	1.8%	1.9%
Gregg	0.6%	0.5%	0.6%
Other	39.0%	38.7%	35.6%
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.

Operation/Commodity	2020		2019		2018	
	Amount	%	Amount	%	Amount	%
Poultry and eggs	83,646,388	28.0%	74,336,316	26.4%	56,932,615	21.6%
Livestock, except dairy and poultry	78,160,257	26.1%	75,275,251	26.8%	75,361,055	28.6%
Field crops except cash grains	41,767,918	14.0%	42,219,589	15.0%	43,860,113	16.6%
Timber	20,592,479	6.8%	19,290,186	6.8%	19,882,098	7.6%
Hunting, trapping and game propagation	16,081,680	5.4%	15,202,265	5.4%	14,312,280	5.4%
Food and kindred products	9,260,291	3.1%	9,213,317	3.3%	9,348,463	3.6%
Communication	8,899,085	3.0%	7,031,161	2.5%	2,885,865	1.1%
Wholesale trade - nondurable goods	7,751,088	2.6%	6,548,466	2.3%	6,380,561	2.4%
Electric services	4,700,512	1.6%	4,437,817	1.6%	4,102,815	1.6%
Rural home loans	5,074,374	1.7%	4,741,224	1.7%	5,501,960	2.1%
Paper and allied products	4,786,480	1.6%	3,184,791	1.1%	1,925,703	0.7%
Animal specialties	3,839,260	1.3%	3,804,941	1.4%	4,792,734	1.8%
Chemical and allied products	3,055,217	1.0%	1,878,654	0.7%	2,295,730	0.9%
Fruit and tree nuts	2,580,491	0.8%	2,720,597	1.0%	2,489,271	0.9%
Dairy farms	2,263,730	0.7%	2,424,840	0.9%	3,023,773	1.1%
Water Supply	1,996,938	0.7%	1,996,090	0.7%	1,995,244	0.8%
Agricultural services	1,391,788	0.5%	294,861	0.1%	325,729	0.1%
Metal Cans	1,184,229	0.4%	1,170,913	0.4%	1,223,934	0.5%
Building materials, hardware and garden supplies	627,226	0.2%	135,818	0.0%	143,044	0.1%
General farms, primarily crops	560,018	0.2%	46,123	0.0%	96,422	0.0%
General farms, primarily livestock	272,297	0.1%	282,278	0.1%	290,943	0.1%
Real estate	254,707	0.1%	5,096,766	1.8%	5,364,077	2.0%
Vegetables and melons	236,945	0.1%	138,065	0.0%	160,735	0.1%
Horticultural specialties	140,344	0.0%	134,126	0.0%	144,086	0.1%
Health services	\$ 47,163	0.0%	\$ 52,928	0.0%	\$ 58,380	0.0%
Trucking and courier services, except air	-	0.0%	-	0.0%	421,079	0.2%
Total	\$ 299,170,905	100.0%	\$ 281,657,383	100.0%	\$ 263,318,709	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% (or 97% 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:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Nonaccrual Loans:			
Current as to principal and interest	\$ 1,807,998	\$ 2,751,641	\$ 1,076,888
Past Due	<u>558,326</u>	<u>443,918</u>	<u>299,164</u>
Total nonaccrual loans	<u>2,366,324</u>	<u>3,195,559</u>	<u>1,376,052</u>
Impaired Accrual Loans:			
Restructured accrual loans	2,443,488	2,689,986	2,899,964
Accrual loans 90 days or more past due	<u>-</u>	<u>-</u>	<u>-</u>
Total impaired accrual loans	<u>2,443,488</u>	<u>2,689,986</u>	<u>2,899,964</u>
Total impaired loans	<u>\$ 4,809,812</u>	<u>\$ 5,885,545</u>	<u>\$ 4,276,016</u>

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

	<u>December 31, 2020</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Nonaccrual loans:			
Real estate mortgage	\$ 2,333,469	\$ 2,403,445	\$ 1,146,265
Production and intermediate term	<u>32,855</u>	<u>792,114</u>	<u>229,787</u>
Total nonaccrual loans	<u>2,366,324</u>	<u>3,195,559</u>	<u>1,376,052</u>
Accruing restructured loans:			
Real estate mortgage	<u>2,443,488</u>	<u>2,689,986</u>	<u>2,899,964</u>
Total accruing restructured loans	<u>2,443,488</u>	<u>2,689,986</u>	<u>2,899,964</u>
Total nonperforming loans	<u>4,809,812</u>	<u>5,885,545</u>	<u>4,276,016</u>
Other property owned	<u>-</u>	<u>-</u>	<u>49,290</u>
Total nonperforming assets	<u>\$ 4,809,812</u>	<u>\$ 5,885,545</u>	<u>\$ 4,325,306</u>

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

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

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

	2020		2019		2018
Real estate mortgage					
Acceptable	95.5	%	95.6	%	97.8 %
OAEM	3.4		3.1		1.3
Substandard/doubtful	1.1		1.3		0.9
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Production and intermediate term					
Acceptable	76.5		90.8		95.5
OAEM	23.2		3.0		2.7
Substandard/doubtful	0.3		6.2		1.8
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Loans to cooperatives					
Acceptable	100.0		100.0		100.0
OAEM	-		-		-
Substandard/doubtful	-		-		-
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Processing and marketing					
Acceptable	93.8		86.8		100.0
OAEM	6.2		13.2		-
Substandard/doubtful	-		-		-
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Farm-related business					
Acceptable	100.0		100.0		100.0
OAEM	-		-		-
Substandard/doubtful	-		-		-
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Communication					
Acceptable	100.0		100.0		100.0
OAEM	-		-		-
Substandard/doubtful	-		-		-
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Energy					
Acceptable	100.0		100.0		100.0
OAEM	-		-		-
Substandard/doubtful	-		-		-
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Water and waste water					
Acceptable	100.0		100.0		100.0
OAEM	-		-		-
Substandard/doubtful	-		-		-
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Rural residential real estate					
Acceptable	100.0		99.5		99.5
OAEM	-		0.5		0.5
Substandard/doubtful	-		-		-
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Total Loans					
Acceptable	95.1		95.1		98.0
OAEM	4.0		3.6		1.2
Substandard/doubtful	0.9		1.3		0.8
	<u>100.0</u>	%	<u>100.0</u>	%	<u>100.0</u> %

The following tables provide an aging analysis of past due loans (including accrued interest) as of December 31, 2020, 2019 and 2018:

December 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	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 1,136,229	\$ -	\$ 1,136,229	\$ 242,434,642	\$ 243,570,871	\$ -
Production and intermediate term	-	-	-	11,648,064	11,648,064	-
Loans to cooperatives	-	-	-	3,342,875	3,342,875	-
Processing and marketing	-	-	-	17,731,304	17,731,304	-
Farm-related business	-	-	-	3,059,643	3,059,643	-
Communication	-	-	-	8,899,594	8,899,594	-
Energy	-	-	-	4,710,956	4,710,956	-
Water and waste water	-	-	-	3,069,217	3,069,217	-
Rural residential real estate	-	-	-	4,400,507	4,400,507	-
Total	\$ 1,136,229	\$ -	\$ 1,136,229	\$ 299,296,802	\$ 300,433,031	\$ -

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	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	\$ -

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, 2020, the total recorded investment of troubled debt restructured loans was \$3,516,865, including \$1,073,377 classified as nonaccrual and \$2,443,488 classified as accrual, with specific allowance for loan losses of \$303,817. The specific allowance is determined quarterly through a net realizable value analysis for each individual loan asset. As of December 31, 2020, 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, 2020, 2019 and 2018.

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 the year ending December 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 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, 2020, 2019, and 2018.

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, 2020	December 31, 2019	December 31, 2018
Troubled debt restructurings:			
Real estate mortgage	\$ 3,508,629	\$ 3,165,362	\$ 3,041,055
Production and intermediate term	8,236	788,646	-
Total	<u>\$ 3,516,865</u>	<u>\$ 3,954,008</u>	<u>\$ 3,041,055</u>
	TDRs in Nonaccrual Status*		
	December 31, 2020	December 31, 2019	December 31, 2018
Troubled debt restructurings:			
Real estate mortgage	\$ 1,065,141	\$ -	\$ 141,091
Production and intermediate term	8,236	-	-
Total	<u>\$ 1,073,377</u>	<u>\$ -</u>	<u>\$ 141,091</u>

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

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/2020	Unpaid Principal Balance ^a	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ 1,090,199	\$ 1,102,092	\$ 300,442	\$ 1,214,802	\$ -
Production and intermediate term	8,237	8,817	9,069	8,993	-
Total	\$ 1,098,436	\$ 1,110,909	\$ 309,511	\$ 1,223,795	\$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 3,686,758	\$ 3,721,349	\$ -	\$ 3,827,963	\$ 216,350
Production and intermediate term	24,619	384,459	-	10,996	4,840
Total	\$ 3,711,377	\$ 4,105,808	\$ -	\$ 3,838,959	\$ 221,190
Total impaired loans:					
Real estate mortgage	\$ 4,776,957	\$ 4,823,441	\$ 300,442	\$ 5,042,765	\$ 216,350
Production and intermediate term	32,856	393,276	9,069	19,989	4,840
Total	\$ 4,809,813	\$ 5,216,717	\$ 309,511	\$ 5,062,754	\$ 221,190

^aUnpaid principal balance represents the recorded principal balance of the loan.

	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

^aUnpaid 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

^aUnpaid 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, 2020, 2019 and 2018.

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

	2020	2019	2018
Interest income which would have been recognized under the original terms	\$ 377,505	\$ 671,207	\$ 521,235
Less: interest income recognized	(221,190)	(566,853)	(372,710)
Foregone interest income	\$ 156,315	\$ 104,354	\$ 148,525

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, 2019	\$ 719,322	\$ 460,952	\$ 51,437	\$ 3,566	\$ 4,434	\$ 1,635	\$ 3,987	\$ 1,245,333
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	900	12,538	-	-	-	-	-	13,438
Provision for loan losses	30,082	(111,425)	(6,045)	618	(118)	717	842	(85,329)
Balance at								
December 31, 2020	\$ 750,304	\$ 362,065	\$ 45,392	\$ 4,184	\$ 4,316	\$ 2,352	\$ 4,829	\$ 1,173,442
Ending Balance:								
individually evaluated for impairment	\$ 9,069	\$ 300,442	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 309,511
Ending Balance:								
collectively evaluated for impairment	\$ 741,235	\$ 61,623	\$ 45,392	\$ 4,184	\$ 4,316	\$ 2,352	\$ 4,829	\$ 863,931
Recorded Investment in Loans Outstanding:								
Ending Balance at								
December 31, 2020	\$ 243,570,871	\$ 11,648,064	\$ 24,133,822	\$ 8,899,594	\$ 4,710,956	\$3,069,217	\$ 4,400,507	\$ 300,433,031
Ending balance for loans individually evaluated for impairment	\$ -	\$ 32,856	\$ 4,776,956	\$ -	\$ -	\$ -	\$ -	\$ 4,809,812
Ending balance for loans collectively evaluated for impairment	\$ 243,570,871	\$ 11,615,208	\$ 19,356,866	\$ 8,899,594	\$ 4,710,956	\$3,069,217	\$ 4,400,507	\$ 295,623,219

	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
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Ending Balance: collectively evaluated for impairment	\$ 694,857	\$ 58,315	\$ 51,437	\$ 3,566	\$ 4,434	\$ 1,635	\$ 3,987	\$ 818,231
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**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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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Ending Balance: collectively evaluated for impairment	\$ 1,203,155	\$ 62,480	\$ 29,152	\$ 2,112	\$ 9,826	\$ 1,764	\$ 3,981	\$ 1,312,470
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**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

NOTE 4 — INVESTMENT IN THE FARM CREDIT BANK OF TEXAS

The investment in the Farm Credit Bank of Texas is a requirement of borrowing from the bank and is carried at cost plus allocated equities 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%, 1.29% and 1.27% of the issued stock of the bank as of December 31, 2020, 2019 and 2018. As of those dates, the bank's assets totaled \$28.23, \$25.66 and \$24.53 billion and members' equity totaled \$1.99, \$1.84 and \$1.78. The bank's earnings were \$251.1, \$203.0 and \$190.5 million during 2020, 2019 and 2018.

NOTE 5 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2020	2019	2018
Land and improvements	\$ 827,405	\$ 827,405	\$ 112,859
Building and improvements	2,542,746	475,690	488,477
Furniture and equipment	308,957	88,393	95,302
Computer equipment and software	125,562	87,607	83,632
Automobiles	619,443	653,531	620,539
Construction in progress	169,373	757,957	4,158
	4,593,486	2,890,583	1,404,967
Accumulated depreciation	(854,622)	(695,406)	(652,388)
Total	\$ 3,738,864	\$ 2,195,177	\$ 752,579

The association owns buildings in Sulphur Springs, Canton, Gilmer, Longview and Terrell, and leases office space in Sulphur Springs (three locations). Two of the Sulphur Springs building leases are one-year leases which expire in 2021, and the third is a three-year lease, which expires in 2023. Lease expense was \$36,005, \$49,542 and \$51,642 for 2020, 2019 and 2018, respectively.

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

	Operating
2021	\$ 49,750
2022	21,600
2023	19,800
2024	-
2025	-
Thereafter	-
Total	\$ 91,150

NOTE 6 — OTHER PROPERTY OWNED, NET:

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

	2020	2019	2018
Gain (loss) on sale, net	\$ -	\$ 8,724	\$ 36,028
Provision expense	-	-	(72,217)
Operating income (expense), net	-	(1,633)	(15,829)
Net gain (loss) on other property owned	\$ -	\$ 7,091	\$ (52,018)

At December 31, 2020, 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.

NOTE 7 — OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	2020	2019	2018
Accounts receivable other	\$ 149,445	\$ 149,445	\$ 152,774
Other	12,600	22,008	8,059
Total	<u>\$ 162,045</u>	<u>\$ 171,453</u>	<u>\$ 160,833</u>

Other liabilities comprised the following at December 31:

	2020	2019	2018
Accounts payable	\$ 956,979	\$ 965,032	\$ 927,466
Postretirement benefits liability	\$ 284,507	\$ 270,060	\$ 238,634
Accrued annual leave	\$ 174,168	\$ 179,211	\$ 156,844
Other	14,420	15,880	16,762
Total	<u>\$ 1,430,074</u>	<u>\$ 1,430,183</u>	<u>\$ 1,339,706</u>

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, 2021, 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, 2020, 2019 and 2018, was \$242,927,735 at 2.52%, \$225,732,667 at 3.09% and \$207,561,145 at 2.84%, 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, 2020, 2019 and 2018, the association's note payable was within the specified limitations. The maximum amount the association may borrow from the bank as of December 31, 2020, was \$294,337,583, 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, 2020, 2019 and 2018, the association was not subject to remedies associated with the covenants in the general financing agreement.

NOTE 9 — MEMBERS' EQUITY:

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

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

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

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, 2020, 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, 2020, 2019 and 2018, the association had \$1,000, \$0, and \$0 of Class C stock, respectively.

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 2020, 2019 and 2018, respectively:

Date Declared	Date Paid	Patronage
January 2020	April 2020	2,365,866
January 2019	April 2019	2,299,643
December 2017	April 2018	2,100,022

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, 2020, 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, 2020:

<u>Risk-adjusted:</u>	Regulatory Minimums	Conservation Buffer*	Total	As of December 31, 2020
Common equity tier 1 ratio	4.50%	2.50%	7.00%	20.63%
Tier 1 capital ratio	6.00%	2.50%	8.50%	20.63%
Total capital ratio	8.00%	2.50%	10.50%	21.09%
Permanent capital ratio	7.00%	0.00%	7.00%	20.73%
<u>Non-risk-adjusted:</u>				
Tier 1 leverage ratio**	4.00%	1.00%	5.00%	18.91%
UREE leverage ratio	1.50%	0.00%	1.50%	19.98%

*The new capital requirements have a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. There is no phase-in of the leverage buffer. Amounts shown reflect the full capital conservation buffer.

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

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

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

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

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

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

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

The components of the association's risk-adjusted capital, based on 90-day average balances, were as follows at December 31, 2020:

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	41,661,265	41,661,265	41,661,265	41,661,265
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	1,078,930	1,078,930	1,078,930	1,078,930
Nonqualified allocated equities not subject to retirement	18,644,575	18,644,575	18,644,575	18,644,575
Allowance for loan losses and reserve for credit losses subject to certain limitations*			1,261,383	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(4,316,629)	(4,316,629)	(4,316,629)	(4,316,629)
	57,068,141	57,068,141	58,329,524	57,068,141
Denominator:				
Risk-adjusted assets excluding allowance	280,919,624	280,919,624	280,919,624	280,919,624
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(4,316,629)	(4,316,629)	(4,316,629)	(4,316,629)
Allowance for loan losses				(1,261,383)
	276,602,995	276,602,995	276,602,995	275,341,612

*Capped at 1.25% 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, 2020:

(dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	41,661,265	41,661,265
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	1,078,930	-
Nonqualified allocated equities not subject to retirement	18,644,575	18,644,575
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(4,316,629)	-
	57,068,141	60,305,840
Denominator:		
Total Assets	308,097,801	308,097,801
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(6,290,458)	(6,290,458)
	301,807,343	301,807,343

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:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Class A stock	206,844	206,986	207,616
Class C stock	200	-	-
Participation certificates	9,838	8,747	7,352
Total	<u>216,882</u>	<u>215,733</u>	<u>214,968</u>

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Nonpension postretirement benefits	\$ 6,987	\$ 26,084	\$ 59,139

The association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. The following table summarizes the changes in accumulated other comprehensive income (loss) and the location on the income statement for the year ended December 31:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Accumulated other comprehensive income (loss) at January 1	\$ 26,084	\$ 59,139	\$ 38,931
Actuarial gains (losses)	(17,532)	(29,068)	15,584
Prior service (cost) credit	-	-	11,391
Amortization of prior service (credit) costs included in salaries and employee benefits	(1,565)	(1,565)	(6,145)
Amortization of actuarial (gain) loss included in salaries and employee benefits	-	(2,422)	(622)
Other comprehensive income (loss), net of tax	(19,097)	(33,055)	20,208
Accumulated other comprehensive income at December 31	\$ 6,987	\$ 26,084	\$ 59,139

NOTE 10 — INCOME TAXES:

There was no provision for income taxes for the years ended December 31, 2020, 2019, 2018.

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Federal tax at statutory rate	\$ 947,723	\$ 834,589	\$ 812,518
Effect of nontaxable FLCA subsidiary	(1,393,073)	(1,409,468)	(1,192,382)
Change in valuation allowance	445,350	574,879	378,957
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:

	2020	2019	2018
<u>Deferred Tax Assets</u>			
Allowance for loan losses	\$ 71,573	\$ 94,970	\$ 12,618
Loss carryforwards	6,215,862	5,456,939	4,964,412
Gross deferred tax assets	6,287,435	5,551,909	4,977,030
Deferred tax asset valuation allowance	(6,287,435)	(5,551,909)	(4,977,030)
Net deferred tax asset (liability)	\$ -	\$ -	\$ -

The association recorded valuation allowances of \$6,287,435, \$5,551,909, and \$4,977,030 during 2020, 2019 and 2018, 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, 2020 approximates \$28,217,549, of which \$21,834,702 will begin to expire in 2025 and \$6,382,847 has an indefinite carryforward period.

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, 2020, 2019 and 2018. There were no payments made from the supplemental 401(k) plan to active employees during 2020, 2019 and 2018.

The DB plan is non-contributory 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, 2020.

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, 2020, 2019 and 2018:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Funded status of plan	62.6 %	66.2 %	68.0 %
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 64.3 percent, 68.0 percent and 70.1 percent at December 31, 2020, 2019 and 2018, respectively.

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

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

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

Retiree Welfare Benefit Plans

Disclosure Information Related to Retirement Benefits	2020	2019	2018
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	\$ 270,060	\$ 238,634	\$ 263,654
Service cost	8,389	6,785	8,265
Interest cost	9,023	10,927	10,240
Plan participants' contributions	6,168	690	690
Plan amendments	-	-	(11,391)
Special termination benefits	-	-	-
Actuarial loss (gain)	17,532	29,068	(15,584)
Benefits paid	(26,665)	(16,044)	(17,240)
Accumulated postretirement benefit obligation, end of year	\$ 284,507	\$ 270,060	\$ 238,634
Change in Plan Assets			
Plan assets at fair value, beginning of year	\$ -	\$ -	\$ -
Actual return on plan assets	-	-	-
Company contributions	20,497	15,354	16,550
Plan participants' contributions	6,168	690	690
Benefits paid	(26,665)	(16,044)	(17,240)
Plan assets at fair value, end of year	\$ -	\$ -	\$ -
Funded status of the plan	\$ (284,507)	\$ (270,060)	\$ (238,634)
Amounts Recognized on the Balance Sheets			
Other liabilities	\$ (284,507)	\$ (270,060)	\$ (238,634)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss (gain)	\$ 1,274	\$ (16,258)	\$ (47,748)
Prior service cost (credit)	(8,261)	(9,826)	(11,391)
Net transition obligation (asset)	-	-	-
Total	\$ (6,987)	\$ (26,084)	\$ (59,139)
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	12/31/2020	12/31/2019	12/31/2018
Discount rate	2.80%	3.45%	4.75%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	6.90% / 6.40%	6.90% / 6.40%	7.30% / 6.90%
Health care cost trend rate assumed for next year - Rx	6.90%	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	2029	2027

Total Cost	2020	2019	2018
Service cost	\$ 8,389	\$ 6,785	\$ 8,265
Interest cost	9,023	10,927	10,240
Expected return on plan assets	-	-	-
Amortization of:			
Unrecognized net transition obligation (asset)	-	-	-
Unrecognized prior service cost	(1,565)	(1,565)	(6,145)
Unrecognized net loss (gain)	-	(2,422)	(622)
Net postretirement benefit cost	\$ 15,847	\$ 13,725	\$ 11,738
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)	\$ 17,532	\$ 29,068	\$ (15,584)
Amortization of net actuarial loss (gain)	-	2,422	622
Prior service cost (credit)	-	-	(11,391)
Amortization of prior service cost	-	1,565	6,145
Recognition of prior service cost	1,565	-	-
Amortization of transition liability (asset)	-	-	-
Total recognized in other comprehensive income	\$ 19,097	\$ 33,055	\$ (20,208)

AOCI Amounts Expected to be Amortized Into Expense in 2021

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	12/31/2019	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	6.90%	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

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)

Fiscal 2021	\$ 18,374
Fiscal 2022	19,399
Fiscal 2023	14,298
Fiscal 2024	13,505
Fiscal 2025	12,599
Fiscal 2026–2030	50,035

Expected Contributions

Fiscal 2021	\$ 18,374
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OTE 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, 2020, 2019 and 2018 for the association amounted to \$2,292,064, \$2,324,341 and \$2,555,118. During 2020, 2019 and 2018, \$1,214,813, \$1,229,095 and \$2,885,229 of new loans were made, and repayments totaled \$1,129,167, \$1,428,101 and \$2,363,121, respectively. In the opinion of management, no such loans outstanding at December 31, 2020, 2019 and 2018 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 \$334,115, \$329,682 and \$348,316 in 2020, 2019 and 2018, respectively.

The association received patronage payments from the bank totaling \$1,409,361, \$1,129,076 and \$979,573 during 2020, 2019 and 2018, 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 recurring basis at December 31, 2020, 2019 and 2018 for each of the fair value hierarchy values are summarized below:

December 31, 2020	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$1,181,225	\$1,181,225
Other property owned	-	-	-	-
December 31, 2019	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ 1,875,594	\$ 1,875,594
Other property owned	-	-	-	-
December 31, 2018	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ 54,000	\$ 54,000
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, 2020					
Fair Value Measurement Using					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	\$ 129,112	\$ 129,112	\$ -	\$ -	\$ 129,112
Net loans	296,816,238	-	-	301,880,892	301,880,892
Total Assets	<u>\$296,945,350</u>	<u>\$ 129,112</u>	<u>\$ -</u>	<u>\$301,880,892</u>	<u>\$302,010,004</u>
Liabilities:					
Note payable to bank	\$242,927,735	\$ -	\$ -	\$247,060,845	\$247,060,845
Total Liabilities	<u>\$242,927,735</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$247,060,845</u>	<u>\$247,060,845</u>

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	<u>\$ 278,662,455</u>	<u>\$ 125,999</u>	<u>\$ -</u>	<u>\$ 279,739,197</u>	<u>\$ 279,865,196</u>
Liabilities:					
Note payable to bank	\$ 225,732,667	\$ -	\$ -	\$ 226,704,543	\$ 226,704,543
Total Liabilities	<u>\$ 225,732,667</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 226,704,543</u>	<u>\$ 226,704,543</u>

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	<u>\$ 262,133,185</u>	<u>\$ 126,946</u>	<u>\$ -</u>	<u>\$ 255,475,935</u>	<u>\$ 255,602,881</u>
Liabilities:					
Note payable to bank	\$ 207,561,145	\$ -	\$ -	\$ 202,413,629	\$ 202,413,629
Total Liabilities	<u>\$ 207,561,145</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 202,413,629</u>	<u>\$ 202,413,629</u>

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 2020, 2019, or 2018.

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 consider 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, 2020, \$24,193,450 of commitments and \$149,506 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:

2020					
	First	Second	Third	Fourth	Total
Net interest income	\$ 1,957	\$ 1,997	\$ 2,068	\$ 2,131	\$ 8,153
(Provision for) reversal of loan losses	3	5	44	33	85
Noninterest income (expense), net	(934)	(944)	(976)	(871)	(3,725)
Net income	\$ 1,026	\$ 1,058	\$ 1,136	\$ 1,293	\$ 4,513

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

NOTE 16 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through March 16, 2021, 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, “Organization and Operations,” to the consolidated financial statements.

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.”

DESCRIPTION OF PROPERTY

Legacy 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, Canton, Terrell, and Longview. The association leases three office buildings in Sulphur Springs.

LEGAL PROCEEDINGS

In the ordinary course of business, the association is involved in various legal proceedings. There is currently a pending claim against the association and, in the opinion of legal counsel and management, it is not 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, “Members’ Equity,” to the consolidated financial statements.

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.”

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

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

The association’s financial condition may be impacted by factors that affect the bank, as discussed in Note 1, “Organization and Operations,” to the consolidated financial statements. 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, 2020, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Consolidated Financial Data" 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
Danny Evans	Director	2018	2021
Louis Cernoch, Jr.	Director	2018	2021
Brandon Sides	Director	2017	2023
Clay Smith	Director	2020	2023
Derrell Chapman	CEO	2017	-
Sherry Sturgis	SVP/CAO	2007	-
Jake Agaron	SVP/CCO	2014	-
Heather Johnson	Controller	2011	-

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 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 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.

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 with 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 2020.

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 that 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 as a 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.

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 and Texas Baptist Men and is a veteran who served six years in the National Guard. Mr. Cernoch has served as a stockholder-elected director since his election in 2018.

Danny Evans, director and member of the compensation committee. Mr. Evans resides near Sulphur Springs, Texas, where he owns and operates a beef cattle and hay production operation. He holds a B.S. 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.

Cheryl Scott, director and chair of the audit committee. 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 Master 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.

Clay Smith, director and member of the compensation committee. Mr. Smith is a contract poultry grower for Sanderson Farms, and he performs safety and risk management consulting work for several public firms. He currently serves as President of Circle S Farms, LLC and operates six broiler houses capable of producing approximately 1.2 million birds each year. He currently resides in the Mineola, Texas area in Wood County. Mr. Smith is a fifth-generation farmer who grew up on a farm that produced sweet potatoes and watermelons. He graduated from Quitman High School and received a B.A. degree in Business Administration/Management from Texas A&M University at Commerce. Mr. Smith was elected to the board in 2020.

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 B.B.A. 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.

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 (formerly East Texas State University) in Commerce, Texas.

Heather Johnson currently serves as Controller for the Association. Mrs. Johnson joined Legacy in 2011 and has over 28 years of financial accounting and reporting experience. Mrs. Johnson holds a B.B.A. in accounting from Texas Christian University and is a Certified Public Accountant licensed in the state 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 chair of the board and audit committee chair receive 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 2020 was paid at the IRS-approved rate of 57.5 cents per mile. A copy of the travel policy is available to stockholders of the association upon request.

Director	Number of Days Served Associated With		Total Compensation in 2020
	Board Meetings	Other Official Activities	
Terry D. Milligan	11	25	\$ 21,600
Cheryl Scott	11	34	24,131
Cody Newman	11	17	15,300
Brandon Sides	11	8	12,750
David R. Reeves	7	11	9,000
Danny Evans	11	9	13,950
Louis Cernoch, Jr.	11	6	12,300
Clay Smith	4	7	7,800
			<u>\$ 116,831</u>

The aggregate compensation paid to directors in 2020, 2019 and 2018 was \$116,831, \$149,200 and \$141,950, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows for 2020:

Director	Committee	
	Audit	Other Official Activities
Terry D. Milligan	\$ 2,100	\$ 19,500
Cheryl Scott	8,381	15,750
Cody Newman	2,100	13,200
Brandon Sides	-	12,750
David R. Reeves	1,050	7,950
Danny Evans	900	13,050
Louis Cernoch, Jr.	-	12,300
Clay Smith	750	7,050
	<u>\$ 15,281</u>	<u>\$ 101,550</u>

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was \$26,888, \$55,438 and \$50,276 in 2020, 2019 and 2018, 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 2020, 2019 and 2018 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 which focuses on the performance and contributions of its

employees in achieving the association's financial and operational objectives, all for the ultimate benefit of its stockholder/members. The association's board of directors, through its compensation committee, establishes salary and incentive programs utilizing data derived from independent third-party compensation specialists in the financial services sector to ensure that salary and incentive structures are in line with market-comparable positions. Studies provided by third-party compensation specialists form the foundation for the association's evaluation and establishment of salary and incentive plans used by the association.

All association employees, 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 12-20 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 minimum 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 2020, 2019 and 2018. This may include other non-senior officers if their total compensation is within the top five highest paid employees. Amounts reflected in the table are presented in the year the compensation was earned.

Name of Individual or number in group	Year	Salary (b)	Bonus (c)	Deferred/ Perquisite (d)	Total
Derrell Chapman - CEO	2020	\$ 224,509	\$ 40,410	\$ 50,020	\$ 314,939
Derrell Chapman - CEO	2019	217,509	28,275	48,394	294,178
Derrell Chapman - CEO	2018	210,008	40,000	49,565	299,572
Senior Officers/OHCI (a)					
5	2020	\$ 590,663	\$ 108,725	\$ 144,547	\$ 843,935
6	2019	854,175	116,491	179,664	1,150,330
5	2018	701,041	134,552	146,967	982,560

(a) Aggregate number of senior officers/highly compensated individuals, excluding CEO.

(b) Gross salary

- (c) Bonuses paid within the first 30 days of the subsequent calendar year.
- (d) Deferred/Perquisites include all non-salary related benefits provided to the employee such as 401(K) matching and contributions to the Defined Contribution retirement plan (as discussed in Note 2 H), medical and dental insurance premiums paid by the employer, imputed income on employer paid life insurance and imputed income for personal use of association vehicles (as described below).

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 2020, 2019 and 2018.

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, “Related Party Transactions”, to the consolidated financial statements. .

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 2020 annual report. The total fees for professional services rendered by PricewaterhouseCoopers LLP for the association related to 2020 were \$78,000 for audit services, \$11,700 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, 2020.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 16, 2021, 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

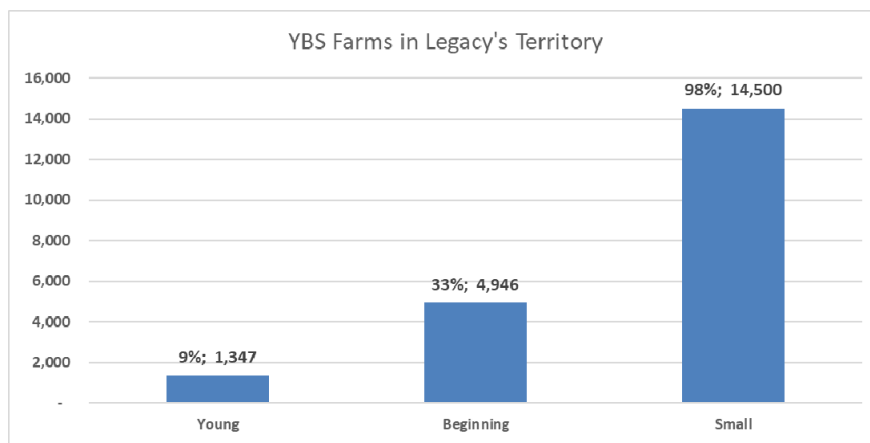
- Young Farmer – age 35 or younger
- Beginning Farmer – 10 years or less experience
- Small Farmer - \$250,000 or less gross agricultural income

USDA 2017 Census of Agricultural Data

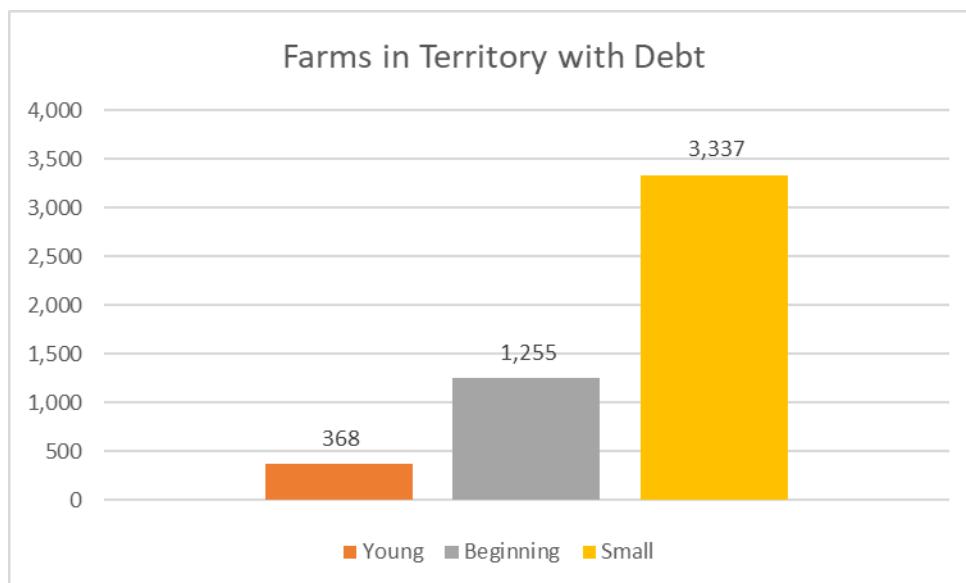
In April 2019, USDA published its 2017 Ag Census. The census provides information about America's farms and ranches and those that operate them, including new data about on-farm decision making, down to the county level. Information collected directly from farmers and ranchers tells us that farm numbers 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 1,544 loans as of year-end 2020, 1,608 loans as of year-end 2019 and 1,575 loans as of year-end 2018. The table below represents Legacy's YBS concentrations as of year-end 2018, 2019 and 2020, based on the total number of loans in the portfolio.

	2020 Count / % of Total Portfolio		2019 Count / % of Total Portfolio		2018 Count / % of Total Portfolio	
Young	199	12.89%	212	13.18%	211	13.40%
Beginning	724	46.89%	759	47.20%	777	49.33%
Small	924	59.84%	993	61.75%	1,046	66.41%

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 (3) year period 2018 - 2020.

Based on the USDA 2017 Ag Census, Legacy did not keep pace booking YBS loans and based on the demographics, there are additional lending opportunities to serve this segment within the association's territory.

As the chart on the following page outlines, in 2020 there were mixed results in comparing actual results versus goals. In the Young Farmer category, the association was slightly below in the goal in number and volume. In the Beginning Farmer category, the association was above the goal in both number and volume. In the Small Farmer category, the association was below the goal in both number and volume.

The association will continue its efforts to aggressively serve its marketplace. The association's YBS plan in the 2021 Business Plan establishes a 3% growth goal when compared to 2020 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 2020 results and goals for years 2021, 2022, and 2023. Based on these goals, the association expects that the volume and number of YBS farmers served throughout our territory will grow in future years.

2020 Actual

	Loans Outstanding		Gross New Business Plus Commitments FYE	
Category	Number of Loans	Volume	Number of Loans	Volume
Young	199	\$ 30,882	45	\$ 10,036
Beginning	724	\$ 120,255	156	\$ 38,987
Small	924	\$ 68,481	194	\$ 19,794

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	205	\$ 31,808	46	\$ 10,337
Beginning	746	\$ 123,863	161	\$ 40,157
Small	952	\$ 70,535	200	\$ 20,388

2022 Goals

	Loans Outstanding		Gross New Business Plus Commitments FYE	
Category	Number of Loans	Volume	Number of Loans	Volume
Young	211	\$ 32,763	48	\$ 10,647
Beginning	768	\$ 127,579	166	\$ 41,361
Small	980	\$ 72,651	206	\$ 20,999

2023

	Loans Outstanding		Gross New Business Plus Commitments FYE	
Category	Number of Loans	Volume	Number of Loans	Volume
Young	217	\$ 33,746	49	\$ 10,967
Beginning	791	\$ 131,406	170	\$ 42,602
Small	1,010	\$ 74,831	212	\$ 21,629

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
- Awarding scholarships to area youth involved in agriculture
- Sponsoring local charitable and civic events
- Establishing a YBS Advisory Committee to enhance association knowledge regarding the YBS sector

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 2021.
- 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's Board of Directors. A summary capsule report of YBS loan-related statistics is provided to the association's 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 4H students for the purchase of show animals.
- We plan to utilize the YBS Advisory Committee to:
 - Assist the association in developing marketing and lending objectives including but not limited to products, services, rates, and underwriting standards in order to best reach the YBS demographic in our market and further meet the mission of the Farm Credit System.
 - Represent the association at agricultural events and meetings as well as to represent the YBS sector to the Board.
 - Gain valuable input on policy from the viewpoint of the YBS Farmer in order to remain relevant as the next generation of agricultural producers begins to become established.
 - Understand ways YBS farmers can further be involved in both our association and the agricultural community as they continue their careers.
 - Learn the unique structure and benefits of doing business with Legacy Ag Credit in order to gain YBS influencers and advocates for our association in our communities.
 - Improve Legacy's ability to attract high quality borrowers and to compete more effectively with other lending institutions in the YBS sector.

Legacy Ag Credit, ACA
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Sulphur Springs, Texas 75483-0468

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