LEGACY AG CREDIT, ACA

2018
Quarterly Report
First Quarter

For the Quarter Ended March 31, 2018

REPORT OF MANAGEMENT

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

Derrell Chapman, CPA, Chief Executive Officer
May 7*, 2018*

Terry Milligan, Chairman, Board of Directors
May 7, 2018

Daryl D. Belt, Chief Financial Officer
May 7*, 2018*

John Shinn, CPA, Chairman, Audit Committee
May 7, 2018

LEGACY AG CREDIT, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Legacy Ag Credit, ACA (Agricultural Credit Association), referred to as the association, for the quarter ended March 31, 2018. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2017 Annual Report to Stockholders.

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

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

Significant Events:

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

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

Effective January 10, 2017, the association was placed under special supervision by the Farm Credit Administration (FCA) related to the manner in which the decision was made to terminate the merger with Texas Farm Credit Services. The FCA, through three Supervisory Letters issued during 2017, established a number of supervisory requirements including the engagement of a board consultant approved by the FCA.

Effective February 20, 2018, FCA recognized the progress made by the board in improving its governance performance and terminated the three previously issued Supervisory Letters. FCA issued a new Supervisory Letter dated February 20, 2018 that included an ongoing requirement for a board consultant, fulfilment of certain planned board training activities, and submission of a plan for benchmarking assessments of both board and individual director performance compared to previous assessments. The board has plans and resources in place to meet the requirements of the February 20, 2018 FCA letter.

Loan Portfolio:

Total loans outstanding at March 31, 2018, including nonaccrual loans and sales contracts, were $249,444,922 compared to $246,432,546 at December 31, 2017, reflecting an increase of 1.2 percent. Nonaccrual loans as a percentage of total loans outstanding were .7 percent at March 31, 2018, compared to .8 percent at December 31, 2017.

The association recorded $24,840 in recoveries and $0 in charge-offs for the quarter ended March 31, 2018, and $4,459 in recoveries and $10,972 in charge-offs for the same period in 2017. The association's allowance for loan losses was .5 percent and .5 percent of total loans outstanding as of March 31, 2018, and December 31, 2017, respectively.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the association's components and trends of high-risk assets.

	March 31, 2018		December 31, 2017	
	Amount	**%**	Amount	%
Nonaccrual	**$ 1,773,727**	**36.1%**	$ 1,932,653	39.1%
Formally restructured	**2,996,552**	**63.9%**	3,005,558	60.9%
Total	**$ 4,770,279**	**100.0%**	$ 4,938,211	100.0%

Results of Operations:

The association had net income of $1,068,578 for the three months ended March 31, 2018, as compared to net income of $731,857 for the same period in 2017, reflecting an increase of 46.0 percent. Net interest income was $1,910,617 for the three months ended March 31, 2018, compared to $1,731,951 for the same period in 2017.

	Three months ended			
	March 31, 2018		March 31, 2017	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 249,000,935**	**$ 3,181,774**	$ 234,720,052	$ 2,758,329
Interest-bearing liabilities	**194,566,515**	**1,271,157**	180,789,974	1,026,378
Impact of capital	**$ 54,434,420**		$ 53,930,078	
Net interest income		**$ 1,910,617**		$ 1,731,951

	2018 Average Yield	2017 Average Yield
Yield on loans	**5.18%**	4.77%
Cost of interest-bearing liabilities	**2.65%**	2.30%
Interest rate spread	**2.53%**	2.46%
Net interest income as a percentage of average earning assets	**3.11%**	2.99%

	Three months ended: March 31, 2018 vs. March 31, 2017		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 167,822**	**$ 255,623**	**$ 423,445**
Interest expense	**78,211**	**166,568**	**244,779**
Net interest income	**$ 89,611**	**$ 89,055**	**$ 178,666**

Interest income for the three months ended March 31, 2018, increased by $423,445 or 15.4 percent from the same period of 2017, primarily due to increases in yields on earning assets and an increase in average loan volume. Interest expense for the three months ended March 31, 2018, increased by $244,779 or 23.8 percent from the same period of 2017 due to an increase in interest rates as well as an increase in average debt volume. Average loan volume for the first quarter of 2018 was $249,000,935, compared to $234,720,052 in the first quarter of 2017. The average net interest rate spread on the loan portfolio for the first quarter of 2018 was 3.11 percent, compared to 2.99 percent in the first quarter of 2017.

The association's return on average assets for the three months ended March 31, 2018, was 1.70 percent compared to 1.24 percent for the same period in 2017. The association's return on average equity for the three months ended March 31, 2018, was 7.59 percent, compared to 5.37 percent for the same period in 2017.

In March 2018, the association received a nonrecurring refund from the Farm Credit System Insurance Corporation for insurance premiums of $135,518.

Liquidity and Funding Sources:

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

		March 31, 2018		December 31, 2017
Note payable to the bank	$	**194,934,743**	$	191,700,575
Accrued interest on note payable		**445,095**		414,846
Total	$	**195,379,838**	$	192,115,421

The association operates under a general financing agreement (GFA) with the bank. The current GFA is effective through September 30, 2020. The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of $194,934,743 as of March 31, 2018, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 2.65 percent at March 31, 2018. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by the general financing agreement. The increase in note payable to the bank and related accrued interest payable since December 31, 2017, is due to the association's increase in loan volume. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were $53,557,510 at March 31, 2018. The maximum amount the association may borrow from the bank as of March 31, 2018, was $237,709,935 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement unless sooner terminated by the bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the bank 120 days' prior written notice.

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

Capital Resources:

The association's capital position increased by $1,065,566 at March 31, 2018, compared to December 31, 2017. The association's debt as a percentage of members' equity was 3.51:1 as of March 31, 2018, compared to 3.53:1 as of December 31, 2017.

Farm Credit Administration regulations require us to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of March 31, 2018, the association exceeded all regulatory capital requirements.

Relationship With the Farm Credit Bank of Texas:

The association's financial condition may be impacted by factors that affect the bank. The financial condition and results of operations of the bank may materially affect the stockholder's investment in the association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2017 Annual Report of Legacy Ag Credit, ACA more fully describe the association's relationship with the bank.

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

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

LEGACY AG CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	March 31, 2018 (unaudited)	December 31, 2017
ASSETS		
Cash	$ **104,196**	$ 104,733
Loans	**249,444,922**	246,432,546
Less: allowance for loan losses	**1,294,633**	1,302,631
Net loans	**248,150,289**	245,129,915
Accrued interest receivable	**1,437,946**	1,129,861
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**3,695,075**	3,695,075
Other	**509,323**	199,386
Premises and equipment, net	**622,725**	636,280
Other assets	**300,003**	165,157
Total assets	$ **254,819,557**	$ 251,060,407
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	$ **194,934,743**	$ 191,700,575
Advance conditional payments	**136**	30,594
Accrued interest payable	**448,391**	416,552
Drafts outstanding	**13,995**	5,095
Patronage distributions payable	**2,134,607**	2,100,000
Other liabilities	**763,249**	1,348,721
Total liabilities	**198,295,121**	195,601,537
MEMBERS' EQUITY		
Capital stock and participation certificates	**1,105,185**	1,106,505
Unallocated retained earnings	**55,382,012**	54,313,434
Accumulated other comprehensive income (loss)	**37,239**	38,931
Total members' equity	**56,524,436**	55,458,870
Total liabilities and members' equity	$ **254,819,557**	$ 251,060,407

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

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended March 31, 2018	Quarter Ended March 31, 2017
INTEREST INCOME		
Loans	**$ 3,181,774**	$ 2,758,329
INTEREST EXPENSE		
Note payable to the Farm Credit Bank of Texas	**1,271,157**	1,026,370
Advance conditional payments	**-**	8
Total interest expense	**1,271,157**	1,026,378
Net interest income	**1,910,617**	1,731,951
PROVISION FOR (REVERSAL OF) LOAN LOSSES	**(32,838)**	10,089
Net interest income after provision for loan losses	**1,943,455**	1,721,862
NONINTEREST INCOME		
Income from the Farm Credit Bank of Texas:		
Patronage income	**233,954**	169,976
Loan fees	**20,980**	54,510
Refunds from Farm Credit System Insurance Corporation	**135,518**	-
Financially related services income	**181**	102
Gain (loss) on other property owned, net	**-**	1,715
Gain (loss) on sale of premises and equipment, net	**-**	7,703
Other noninterest income	**64,827**	27,781
Total noninterest income	**455,460**	261,787
NONINTEREST EXPENSES		
Salaries and employee benefits	**820,057**	706,340
Directors' expense	**60,201**	63,655
Purchased services	**115,619**	134,631
Travel	**56,267**	47,236
Occupancy and equipment	**60,342**	58,064
Communications	**39,999**	29,527
Advertising	**11,255**	10,046
Public and member relations	**18,191**	25,022
Supervisory and exam expense	**29,944**	24,899
Insurance Fund premiums	**35,303**	56,694
Loss on other property owned, net	**-**	19,350
Loss on premises and equipment	**1,057**	-
Other components of net periodic postretirement benefit cost	**868**	(313)
Other noninterest expense	**81,234**	76,641
Total noninterest expenses	**1,330,337**	1,251,792
NET INCOME	**1,068,578**	731,857
Other comprehensive income:		
Change in postretirement benefit plans	**(1,692)**	(2,948)
COMPREHENSIVE INCOME	**$ 1,066,886**	$ 728,909

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

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2016	$ 1,112,315	$ 55,405,211	$ 76,474	$ 56,594,000
Comprehensive income	-	731,857	(2,948)	728,909
Capital stock/participation certificates and allocated retained earnings issued	28,570	-	-	28,570
Capital stock/participation certificates and allocated retained earnings retired	(35,180)	-	-	(35,180)
Pa Cash		(2,400,000)	-	(2,400,000)
Balance at March 31, 2017	$ 1,105,705	$ 53,737,068	$ 73,526	$ 54,916,299
Balance at December 31, 2017	$ 1,106,505	$ 54,313,434	$ 38,931	$ 55,458,870
Comprehensive income	-	1,068,578	(1,692)	1,066,886
Capital stock/participation certificates and allocated retained earnings issued	31,365	-	-	31,365
Capital stock/participation certificates and allocated retained earnings retired	(32,685)	-	-	(32,685)
Balance at March 31, 2018	**$ 1,105,185**	**$ 55,382,012**	**$ 37,239**	**$ 56,524,436**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Legacy Ag Credit, ACA (Agricultural Credit Association), referred to as the association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The association serves the counties of Franklin, Gregg, Harrison, Hopkins, Kaufman, Marion, Rains, Upshur, Van Zandt and Wood in the state of Texas. The association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2017, as contained in the 2017 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2017, as contained in the 2017 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2017. Descriptions of the significant accounting policies are included in the 2017 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In February 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled "Income Statement — Reporting Comprehensive Income — Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This guidance allows for the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the recently issued tax legislation, Tax Cuts and Jobs Act (TCJA) that lowered the federal corporate tax rate from 35% to 21%. The amount of the reclassification shall include the effect of the change in the tax rate on gross deferred tax amounts and related valuation allowances at the date of enactment of the TCJA related to items remaining in accumulated other comprehensive income. The guidance becomes effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In March 2017, the FASB issued guidance entitled "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost." The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association's financial condition but did change the classification of certain items in the results of operations.

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

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

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. The guidance sets forth the requirement for new and enhanced disclosures. The Association has determined that the effect of the adoption is not material to its financial condition or results of operations and will not change its current recognition practices.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended March 31, 2018, are not necessarily indicative of the results to be expected for the year ended December 31, 2017. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**March 31, 2018 Amount**	December 31, 2017 Amount
Production agriculture:		
Real estate mortgage	**$ 200,341,330**	$ 197,323,124
Production and intermediate term	**12,326,807**	12,447,990
Agribusiness:		
Loans to cooperatives	**2,260,300**	1,673,345
Processing and marketing	**19,625,411**	20,123,055
Farm-related business	**828,108**	761,706
Communication	**3,731,928**	3,757,372
Energy	**4,236,595**	4,369,376
Water and waste water	**1,994,607**	1,994,398
Rural residential real estate	**4,099,836**	3,982,180
Total	**$ 249,444,922**	$ 246,432,546

The association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at March 31, 2018:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Production and intermediate term	$ 4,332,981	$ -	$ -	$ -	$ 4,332,981	$ -
Agribusiness	22,713,819	-	-	-	22,713,819	-
Communication	3,731,928	-	-	-	3,731,928	-
Energy	4,236,595	-	-	-	4,236,595	-
Water and waste water	1,994,606	-	-	-	1,994,606	-
Total	$ 37,009,929	$ -	$ -	$ -	$ 37,009,929	$ -

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

	March 31, 2018	December 31, 2017
Nonaccrual loans:		
Real estate mortgage	**$ 1,689,600**	$ 1,210,051
Production and intermediate term	**84,126**	722,600
Total nonaccrual loans	**1,773,726**	1,932,651
Accruing restructured loans:		
Real estate mortgage	**2,996,552**	3,005,558
Total accruing restructured loans	**2,996,552**	3,005,558
Total nonperforming loans	**4,770,278**	4,938,209
Total nonperforming assets	**$ 4,770,278**	$ 4,938,209

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

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

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	March 31, 2018	December 31, 2017
Real estate mortgage		
Acceptable	**98.0** %	97.8 %
OAEM	**0.8**	1.2
Substandard/doubtful	**1.2**	1.0
	100.0	100.0
Production and intermediate term		
Acceptable	**99.0**	94.2
OAEM	**0.3**	-
Substandard/doubtful	**0.7**	5.8
	100.0	100.0
Loans to cooperatives		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Processing and marketing		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Farm-related business		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Communication		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Energy		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Water and waste water		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Rural residential real estate		
Acceptable	**99.6**	99.5
OAEM	**0.4**	0.5
Substandard/doubtful	**-**	-
	100.0	100.0
Total loans		
Acceptable	**98.3**	98.0
OAEM	**0.7**	0.9
Substandard/doubtful	**1.0**	1.1
	100.0 %	100.0 %

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

March 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	**$ 959,275**	**$ 426,903**	**$ 1,386,178**	**$ 200,134,295**	**$ 201,520,473**	**$ -**
Production and intermediate term	**148,242**	**-**	**148,242**	**12,360,035**	**12,508,277**	**-**
Loans to cooperatives	**-**	**-**	**-**	**2,262,670**	**2,262,670**	**-**
Processing and marketing	**-**	**-**	**-**	**19,656,679**	**19,656,679**	**-**
Farm-related business	**-**	**-**	**-**	**829,892**	**829,892**	**-**
Communication	**-**	**-**	**-**	**3,740,348**	**3,740,348**	**-**
Energy	**-**	**-**	**-**	**4,248,110**	**4,248,110**	**-**
Water and waste water	**-**	**-**	**-**	**2,004,829**	**2,004,829**	**-**
Rural residential real estate	**-**	**-**	**-**	**4,111,590**	**4,111,590**	**-**
Total	**$ 1,107,517**	**$ 426,903**	**$ 1,534,420**	**$ 249,348,448**	**$ 250,882,868**	**$ -**

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

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

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

As of March 31, 2018, the total recorded investment of troubled debt restructured loans was $3,168,872, including $172,320 classified as nonaccrual and $2,996,552 classified as accrual, with specific allowance for loan losses of $0. The specific allowance is determined quarterly through a net realizable value analysis for each individual loan asset. As of March 31, 2018, there were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring at period end and at December 31, 2017.

There were no troubled debt restructurings that occurred during the three months ended March 31, 2018 or 2017. Loans formally restructured prior to January 1, 2017, were $3,168,872.

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). There were no charge-offs recorded at the modification date for the quarter ending March 31, 2018.

The predominant form of concession granted for troubled debt restructuring includes principal and interest reductions. Other types of modifications include extension of the term, principal or accrued interest reductions, interest rate decreases and delayed payments, among others. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all 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 and for which there was a subsequent payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table at:

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Real estate mortgage	$ 3,145,759	$ 3,157,345	$ 149,207	$ 151,788
Production and intermediate term	23,113	24,538	23,113	24,538
Total	$ 3,168,872	$ 3,181,883	$ 172,320	$ 176,326

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

Additional impaired loan information is as follows:

	March 31, 2018			December 31, 2017		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Production and intermediate term	**$ -**	**$ -**	**$ -**	$ 11,833	$ 11,833	$ 1,085
Total	**$ -**	**$ -**	**$ -**	$ 11,833	$ 11,833	$ 1,085
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$4,686,152**	**$ 4,699,491**	**$ -**	$ 4,215,611	$4,221,064	$ -
Production and intermediate term	**84,126**	**1,033,972**	**-**	710,767	1,686,612	-
Total	**$4,770,278**	**$ 5,733,463**	**$ -**	$ 4,926,378	$5,907,676	$ -
Total impaired loans:						
Real estate mortgage	**$4,686,152**	**$ 4,699,491**	**$ -**	$ 4,215,611	$4,221,064	$ -
Production and intermediate term	**84,126**	**1,033,972**	**-**	722,600	1,698,445	1,085
Total	**$4,770,278**	**$ 5,733,463**	**$ -**	$ 4,938,211	$5,919,509	$ 1,085

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

	For the Three Months Ended			
	March 31, 2018		March 31, 2017	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ -**	**$ -**	$2,261,898	$ 27,702
Production and intermediate term	**-**	**-**	649,026	-
Total	**$ -**	**$ -**	$2,910,924	$ 27,702
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$4,541,826**	**$ 50,933**	$2,494,013	$ 49,846
Production and intermediate term	**525,627**	**160**	778,642	1,800
Total	**$5,067,453**	**$ 51,093**	$3,272,655	$ 51,646
Total impaired loans:				
Real estate mortgage	**$4,541,826**	**$ 50,933**	$4,755,911	$ 77,548
Production and intermediate term	**525,627**	**160**	1,427,668	1,800
Total	**$5,067,453**	**$ 51,093**	$6,183,579	$ 79,348

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Water/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	-	24,840	-	-	-	-	-	24,840
Provision for loan losses	16,448	(38,033)	(3,785)	171	(6,990)	(488)	(161)	(32,838)
Balance at March 31, 2018	$ 1,156,565	$ 57,210	$ 34,087	$ 4,109	$ 37,088	$ 1,765	$ 3,809	$ 1,294,633
Ending Balance:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	1,156,565	57,210	34,087	4,109	37,088	1,765	3,809	1,294,633
Balance at March 31, 2018	$ 1,156,565	$ 57,210	$ 34,087	$ 4,109	$ 37,088	$ 1,765	$ 3,809	$ 1,294,633
Balance at December 31, 2016	$ 1,694,453	$ 257,900	$ 28,885	$ 2,923	$ 79,111	$ 15,000	$ 2,676	$ 2,080,948
Charge-offs	(10,972)	-	-	-	-	-	-	(10,972)
Recoveries	2,759	1,700	-	-	-	-	-	4,459
Provision for loan losses	33,714	(20,699)	(1,748)	94	(1,515)	-	243	10,089
Balance at March 31, 2017	$ 1,719,954	$ 238,901	$ 27,137	$ 3,017	$ 77,596	$ 15,000	$ 2,919	$ 2,084,524
Ending Balance:								
Individually evaluated for impairment	$ 378,244	$ 181,014	$ -	$ -	$ -	$ -	$ -	$ 559,258
Collectively evaluated for impairment	1,341,710	57,887	27,137	3,017	77,596	15,000	2,919	1,525,266
Balance at March 31, 2017	$ 1,719,954	$ 238,901	$ 27,137	$ 3,017	$ 77,596	$ 15,000	$ 2,919	$ 2,084,524

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Water/Waste Water	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:								
Ending Balance at March 31, 2018	$ 201,520,473	$ 12,508,277	$ 22,749,241	$ 3,740,348	$ 4,248,110	$ 2,004,829	$ 4,111,590	$ 250,882,868
Individually evaluated for impairment	$ 4,686,152	$ 84,126	$ -	$ -	$ -	$ -	$ -	$ 4,770,278
Collectively evaluated for impairment	$ 196,834,321	$ 12,424,151	$ 22,749,241	$ 3,740,348	$ 4,248,110	$ 2,004,829	$ 4,111,590	$ 246,112,590
Ending Balance at March 31, 2017	$ 187,527,537	$ 11,486,853	$ 22,003,344	$ 3,008,658	$ 4,551,658	$ 2,003,982	$ 3,304,953	$ 233,886,985
Individually evaluated for impairment	$ 4,736,957	$ 1,398,818	$ -	$ -	$ -	$ -	$ -	$ 6,135,775
Collectively evaluated for impairment	$ 182,790,580	$ 10,088,035	$ 22,003,344	$ 3,008,658	$ 4,551,658	$ 2,003,982	$ 3,304,953	$ 227,751,210

NOTE 3 — CAPITAL:

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

Regulatory Capitalization Requirements

Risk-adjusted:	**Regulatory Minimums**	**Conservation Buffer**	**Total**	**As of March 31, 2018**	As of December 31, 2017
Common equity tier 1 ratio	4.50%	2.50%	7.00%	22.20%	22.81%
Tier 1 capital ratio	6.00%	2.50%	8.50%	22.20%	22.81%
Total capital ratio	8.00%	2.50%	10.50%	22.76%	23.63%
Permanent capital ratio	7.00%	0.00%	7.00%	22.33%	23.00%
Non-risk-adjusted:					
Tier 1 leverage ratio	4.00%	1.00%	5.00%	20.89%	21.68%
UREE leverage ratio	1.50%	0.00%	1.50%	21.92%	22.76%

March 31, 2018 (dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	**38,553,598**	**38,553,598**	**38,553,598**	**38,553,598**
Paid-in capital	-	-	-	-
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**1,103,767**	**1,103,767**	**1,103,767**	**1,103,767**
Other required member purchased stock held <5 years				
Other required member purchased stock held ≥ 5 years but < 7 years				
Other required member purchased stock held ≥7 years				
Allocated equities:				
Allocated equities held <5 years				
Allocated equities held ≥5 years but < 7 years				
Allocated equities held ≥7	-	-	-	-
Nonqualified allocated equities not subject to retirement	**16,287,666**	**16,287,666**	**16,287,666**	**16,287,666**
Non-cumulative perpetual preferred stock		-	-	-
Other preferred stock subject to certain limitations			-	-
Subordinated debt subject to certain limitation				
Allowance for loan losses and reserve for credit losses subject to certain limitations			**1,318,376**	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(3,696,523)**	**(3,696,523)**	**(3,696,523)**	**(3,696,523)**
Other regulatory required deductions	-	-	-	-
	52,248,508	**52,248,508**	**53,566,884**	**52,248,508**
Denominator:				
Risk-adjusted assets excluding allowance	**239,038,096**	**239,038,096**	**239,038,096**	**239,038,096**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**(3,696,523)**	**(3,696,523)**	**(3,696,523)**	**(3,696,523)**
Allowance for loan losses				**(1,318,376)**
	235,341,573	**235,341,573**	**235,341,573**	**234,023,197**

March 31, 2018 (dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	**38,553,598**	**38,553,598**
Paid-in capital	-	-
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	**1,103,767**	**-**
Other required member purchased stock held <5 years		
Other required member purchased stock held ≥ 5 years but < 7 years		
Other required member purchased stock held ≥7 years		
Allocated equities:		
Allocated equities held <5 years		
Allocated equities held ≥5 years but < 7 years		
Allocated equities held ≥7	-	-
Nonqualified allocated equities not subject to retirement	**16,287,666**	**16,287,666**
Non-cumulative perpetual preferred stock	-	
Other preferred stock subject to certain limitations		
Subordinated debt subject to certain limitation		
Allowance for loan losses and reserve for credit losses subject to certain limitations		
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	**(3,696,523)**	-
Other regulatory required deductions	-	-
	52,248,508	**54,841,264**
Denominator:		
Total Assets	**254,959,176**	**254,959,176**
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	**(4,827,233)**	**(4,827,233)**
	250,131,943	**250,131,943**

December 31, 2017 (dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	39,713,594	39,713,594	39,713,594	39,713,594
Paid-in capital	-	-	-	-
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	1,100,551	1,100,551	1,100,551	1,100,551
Other required member purchased stock held <5 years				
Other required member purchased stock held ≥ 5 years but < 7 years				
Other required member purchased stock held ≥7 years				
Allocated equities:				
Allocated equities held <5 years				
Allocated equities held ≥5 years but < 7 years				
Allocated equities held ≥7	-	-	-	-
Nonqualified allocated equities not subject to retirement	15,777,695	15,777,695	15,777,695	15,777,695
Non-cumulative perpetual preferred stock				
Other preferred stock subject to certain limitations				
Subordinated debt subject to certain limitation				
Allowance for loan losses and reserve for credit losses subject to certain limitations			1,904,864	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(3,738,022)	(3,738,022)	(3,738,022)	(3,738,022)
Other regulatory required deductions	-	-	-	-
	52,853,818	52,853,818	54,758,682	52,853,818
Denominator:				
Risk-adjusted assets excluding allowance	235,474,246	235,474,246	235,474,246	235,474,246
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(3,738,022)	(3,738,022)	(3,738,022)	(3,738,022)
Allowance for loan losses				(1,904,864)
	231,736,224	231,736,224	231,736,224	229,831,360

December 31, 2017 (dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	39,713,594	39,713,594
Paid-in capital	-	-
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	1,100,551	-
Other required member purchased stock held <5 years		
Other required member purchased stock held ≥ 5 years but < 7 years		
Other required member purchased stock held ≥7 years		
Allocated equities:		
Allocated equities held <5 years		
Allocated equities held ≥5 years but < 7 years		
Allocated equities held ≥7	-	-
Nonqualified allocated equities not subject to retirement	15,777,695	15,777,695
Non-cumulative perpetual preferred stock	-	
Other preferred stock subject to certain limitations		
Subordinated debt subject to certain limitation		
Allowance for loan losses and reserve for credit losses subject to certain limitations		
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(3,738,022)	-
Other regulatory required deductions	-	-
	52,853,818	55,491,289
Denominator:		
Total Assets	249,086,955	249,086,955
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(5,253,490)	(5,253,490)
	243,833,465	243,833,465

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

Accum Other Comp Income (Loss)

March 31, 2018	**Before Tax**	**Deferred Tax**	**Net of Tax**
Nonpension postretirement benefits	**$ 37,239**	**$ -**	**$ 37,239**
March 31, 2017	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	$ 73,526	$ -	$ 73,526

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

	2018	2017
Accumulated other comprehensive income (loss) at January 1	**$ 38,931**	$ 76,474
Amortization of prior service (credit) costs included in salaries and employee benefits	**(1,536)**	(2,049)
Amortization of actuarial (gain) loss included in salaries and employee benefits	**(156)**	(899)
Other comprehensive income (loss), net of tax	**(1,692)**	(2,948)
Accumulated other comprehensive income at March 31	**$ 37,239**	$ 73,526

NOTE 4 — INCOME TAXES:

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

NOTE 5 — FAIR VALUE MEASUREMENTS:

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

March 31, 2018	**Fair Value Measurement Using**			**Total Fair**	**Total Gains**
	Level 1	**Level 2**	**Level 3**	**Value**	**(Losses)**
Assets:					
Loans*	$ -	$ -	$ -	$ -	$ -
Other property owned	-	-	-	-	-

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

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

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

Information About Other Financial Instrument Fair Value Measurements

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

Valuation Techniques

As more fully discussed in Note 13 to the 2017 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the association's assets and liabilities. For a more complete description, see Notes to the 2017 Annual Report to Stockholders.

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

Loans

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

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 6 — EMPLOYEE BENEFIT PLANS:

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

	Other Benefits	
	2018	2017
Service cost	**$ 2,066**	$ 1,697
Interest cost	**2,560**	2,635
Amortization of prior service (credits) costs	**(1,536)**	(2,049)
Amortization of net actuarial (gain) loss	**(156)**	(899)
Net periodic benefit cost	**$ 2,934**	$ 1,384

The association's liability for the unfunded accumulated obligation for these benefits at March 31, 2018, was $264,222 and is included in "Other Liabilities" in the balance sheet.

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

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations). The association recognizes its amortized annual contributions to the plan as an expense. The association previously disclosed in its financial statements for the year ended December 31, 2017, that it expected to contribute $0 to the district's defined benefit pension plan in 2017. As of March 31, 2018, $0 of contributions have been made.

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:

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

NOTE 8 — REGULATORY ENFORCEMENT MATTERS

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

Effective January 10, 2017, the association was placed under special supervision by the Farm Credit Administration (FCA) related to the manner in which the decision was made to terminate the merger with Texas Farm Credit Services. The FCA, through three Supervisory Letters issued during 2017, established a number of supervisory requirements including the engagement of a board consultant approved by the FCA.

Effective February 20, 2018, FCA recognized the progress made by the board in improving its governance performance and terminated the three previously issued Supervisory Letters. FCA issued a new Supervisory Letter dated February 20, 2018 that included an ongoing requirement for a board consultant, fulfilment of certain planned board training activities, and submission of a plan for benchmarking assessments of both board and individual director performance compared to previous assessments. The board has plans and resources in place to meet the requirements of the February 20, 2018 FCA letter.

NOTE 9 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through May 7, 2018, which is the date the financial statements were issued. There are no significant events requiring disclosure as of this date.