

Table of Contents

Report of Management	2
Report of Audit Committee	3
Five-Year Summary of Selected Consolidated Financial Data.....	4
Management’s Discussion and Analysis of Financial Condition and Results of Operations	6
Report of Independent Auditors	11
Consolidated Financial Statements.....	12
Notes to Consolidated Financial Statements	17
Disclosure Information and Index.....	33

REPORT OF MANAGEMENT

The consolidated financial statements of Legacy Ag Credit, ACA (association) are prepared by management, who are 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 appropriate in the circumstances. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The consolidated financial statements are audited by Simonton & Kutac, L.L.P., independent accountants, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The association is also examined by the Farm Credit Administration.

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

The undersigned certify that this annual report has been reviewed and 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 his or her knowledge or belief.

Lee E. Warren, Chief Executive Officer

February 27, 2009

John O. Powell, Chairman, Board of Directors

February 27, 2009

Daryl D. Belt, Chief Financial Officer

February 27, 2009

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of the entire board of directors of Legacy Ag Credit, ACA. In 2008, 14 committee meetings were held. The committee oversees the scope of Legacy Ag Credit, ACA's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on Legacy Ag Credit, ACA's Web site. The committee approved the appointment of Simonton & Kutac, L.L.P.

Management is responsible for Legacy Ag Credit, ACA's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements are prepared under the oversight of the committee. Simonton & Kutac, L.L.P. is responsible for performing an independent audit of Legacy Ag Credit, ACA's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The committee's responsibilities include monitoring and overseeing the processes.

In this context, the committee reviewed and discussed Legacy Ag Credit, ACA's audited consolidated financial statements for the year ended December 31, 2008 (audited consolidated financial statements) with management and Simonton & Kutac, L.L.P.. The committee also reviews with Simonton & Kutac, L.L.P. the matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communication With Those Charged With Governance).

The committee discussed with Simonton & Kutac, L.L.P. its independence from Legacy Ag Credit, ACA. The committee also reviewed the non-audit services provided by Simonton & Kutac, L.L.P. and concluded that these services were not incompatible with maintaining the independent accountant's independence. The committee has discussed with management and Simonton & Kutac, L.L.P. such other matters and received such assurances from them as the committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the committee recommended that the board of directors include the audited consolidated financial statements in Legacy Ag Credit, ACA's Annual Report to Stockholders for the year ended December 31, 2008.

Audit Committee Members

Roy Dan Deen - Chairman
A.G. Sandifeer
Cody Newman
J.L. Sustaie
Jerry Cordell
John O. Powell
Wayne Bawcum, C.P.A.

February 27, 2009

LEGACY AG CREDIT, ACA

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

	December 31,				
	2008	2007	2006	2005	2004
<u>Balance Sheet Data</u>					
<u>Assets</u>					
Cash	\$ 1,198	\$ 946	\$ 654	\$ 394	\$ 268
Investments	-	-	-	-	-
Loans	297,927	263,148	203,722	162,290	124,039
Less: allowance for loan losses	285	84	53	22	18
Net loans	297,642	263,064	203,669	162,268	124,021
Investment in and receivable from the bank	4,783	4,028	2,925	2,188	1,816
Other property owned, net	-	38	-	-	-
Other assets	2,953	3,183	2,510	1,652	1,218
Total assets	<u>\$ 306,576</u>	<u>\$ 271,259</u>	<u>\$ 209,758</u>	<u>\$ 166,502</u>	<u>\$ 127,323</u>
<u>Liabilities</u>					
Obligations with maturities of one year or less	\$ 2,496	\$ 3,136	\$ 1,974	\$ 1,596	\$ 2,931
Obligations with maturities greater than one year	255,713	225,176	170,316	131,966	95,099
Total liabilities	<u>258,209</u>	<u>228,312</u>	<u>172,290</u>	<u>133,562</u>	<u>98,030</u>
<u>Members' Equity</u>					
Capital stock and participation certificates	1,201	1,225	1,167	1,073	1,158
Allocated retained earnings	-	-	3,026	-	-
Unallocated retained earnings	47,018	41,530	33,275	31,867	28,135
Accumulated other comprehensive income (loss)	148	192	-	-	-
Total members' equity	<u>48,367</u>	<u>42,947</u>	<u>37,468</u>	<u>32,940</u>	<u>29,293</u>
Total liabilities and members' equity	<u>\$ 306,576</u>	<u>\$ 271,259</u>	<u>\$ 209,758</u>	<u>\$ 166,502</u>	<u>\$ 127,323</u>
<u>Year Ended December 31,</u>					
<u>Statement of Income Data</u>					
Net interest income	\$ 8,286	\$ 7,797	\$ 6,462	\$ 5,086	\$ 4,239
(Provision for loan losses) or loan loss reversal	(201)	(203)	(31)	(4)	3,270
Income from the bank	904	783	558	408	233
Other noninterest income	384	446	555	466	443
Noninterest expense	(2,887)	(2,344)	(2,095)	(1,802)	(2,129)
Benefit from income taxes	-	-	-	-	-
Extraordinary items	-	-	-	-	-
Net income (loss)	<u>\$ 6,486</u>	<u>\$ 6,479</u>	<u>\$ 5,449</u>	<u>\$ 4,154</u>	<u>\$ 6,056</u>
<u>Key Financial Ratios for the Year</u>					
Return on average assets	2.2%	2.6%	2.9%	2.9%	5.1%
Return on average members' equity	13.8%	15.7%	15.4%	13.3%	22.9%
Net interest income as a percentage of average earning assets	2.9%	3.2%	3.5%	3.6%	3.5%
Net charge-offs (recoveries) as a percentage of average loans	0.0%	0.1%	0.0%	0.0%	0.0%

LEGACY AG CREDIT, ACA

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

(unaudited)

(dollars in thousands)

	December 31,				
	2008	2007	2006	2005	2004
<u>Key Financial Ratios at Year End</u>					
Members' equity as a percentage of total assets	15.8%	15.8%	17.9%	19.8%	23.0%
Debt as a percentage of members' equity	535.9%	534.5%	459.8%	405.5%	334.6%
Allowance for loan losses as a percentage of loans	0.1%	0.0%	0.0%	0.0%	0.0%
Permanent capital ratio	14.8%	15.1%	17.6%	19.5%	21.9%
Core surplus ratio	14.4%	14.6%	17.0%	18.9%	19.6%
Total surplus ratio	14.4%	14.6%	17.0%	18.9%	19.6%
<u>Net Income Distribution</u>					
Cash dividends paid	\$ -	\$ -	\$ -	\$ 368	\$ 336
Patronage refunds:					
Cash	1,250	996	466	-	-

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Legacy Ag Credit, ACA, including its wholly-owned subsidiaries, Legacy, PCA and Legacy Land Bank, FLCA (association) for the years ended December 31, 2008, 2007 and 2006, 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, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

Significant Events:

In December 2008, the association received a direct loan patronage of \$725 thousand from the Farm Credit Bank of Texas (Bank), representing 30 basis points on the average daily balance of the association's direct loan with the bank. During 2008, the association received \$179 thousand in interest credit patronage payments from the bank, based on the association's stock investment in the bank.

Going into 2009, questions about future commodity supplies and prices, uncertainty of the export markets and unfolding world events increase the level of financial risk in the farming sector and, correspondingly, the level of credit risk to those financial institutions providing credit to that sector. Given the situation outlined herein, the quality of the loan portfolio is expected to decline modestly, during 2009. The duration of the conditions described is a concern that has the potential to be more problematic for financial results over the longer term for both the lender and the operator. Continued diligence in the areas of credit controls and monitoring will be essential over the next few years.

For over 92 years, the association has continued to provide its members with quality financial services. 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.

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 and prime-based interest rates. Loan maturities range from one to 40 years, with annual operating loans comprising the majority of the commercial loans and 20- to 30-year maturities comprising the majority of the mortgage loans. Loans serviced by the association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

The composition of the association's loan portfolio, including principal less funds held of \$297,926,871, \$263,148,094 and \$203,721,619 as of December 31, 2008, 2007 and 2006, respectively, is described more fully in detailed tables in Note 3 – "Loans and Allowance for Loan Losses."

Purchase and Sales of Loans:

During 2008, 2007 and 2006, the association was participating in loans with lenders. As of December 31, 2008, 2007 and 2006, these participations totaled \$15,902,434, \$10,796,198 and \$12,533,550, or 5.3 percent, 4.1 percent and 6.2 percent of loans, respectively. The association has no participations with entities outside of the district.

Risk Exposure:

High-risk assets include nonaccrual loans, loans which 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:

	2008		2007		2006	
	Amount	%	Amount	%	Amount	%
Nonaccrual	1,589,652	100.0%	546,870	60.1%	326,925	100.0%
90 days past due and still accruing interest	-	0.0%	325,129	35.7%	-	0.0%
Formally restructured	-	0.0%	-	0.0%	-	0.0%
Other property owned, net	-	0.0%	38,002	4.2%	-	0.0%
Total	<u>\$ 1,589,652</u>	<u>100.0%</u>	<u>\$ 910,001</u>	<u>100.0%</u>	<u>\$ 326,925</u>	<u>100.0%</u>

At December 31, 2008, 2007 and 2006, loans that were considered impaired were \$1,589,652, \$871,999 and \$326,925, representing 0.5 percent, 0.3 percent and 0.1 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

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:

	2008	2007	2006
Allowance for loan losses	\$ 285,392	\$ 84,484	\$ 53,318
Allowance for loan losses to total loans	0.1%	0.0%	0.0%
Allowance for loan losses to nonaccrual loans	18.0%	15.4%	16.3%
Allowance for loan losses to impaired loans	18.0%	9.7%	16.3%
Net charge-offs to average loans	0.0%	0.1%	0.0%

The allowance for loan losses is maintained based upon estimates that consider the general financial strength of the agricultural economy, loan portfolio composition, credit administration and the portfolio's prior loan loss experience. Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of \$285,392, \$84,484 and

\$53,318 at December 31, 2008, 2007 and 2006, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates.

Results of Operations:

The association's net income for the year ended December 31, 2008, was \$6,486,165 as compared to \$6,479,321 for the year ended December 31, 2007, reflecting an increase of \$6,844, or 0.1 percent. The association's net income for the year ended December 31, 2006 was \$5,449,058. Net income increased \$1,030,263, or 18.9 percent, in 2007 versus 2006.

Net interest income for 2008, 2007 and 2006 was \$8,286,154, \$7,796,825 and \$6,461,781, reflecting increases of \$489,329, or 6.3 percent, for 2008 versus 2007 and \$1,335,044, or 20.7 percent, for 2007 versus 2006. 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:

	2008		2007		2006	
	Average Balance	Interest	Average Balance	Interest	Average Balance	Interest
Loans	\$ 281,812,790	\$ 19,058,104	\$ 242,466,041	\$19,322,456	\$ 164,784,542	\$ 14,410,995
Interest-bearing liabilities	241,663,481	10,771,950	206,287,309	11,525,608	131,657,483	7,949,214
Impact of capital	\$ 40,149,309		\$ 36,178,732		\$ 33,127,059	
Net interest income		\$ 8,286,154		\$ 7,796,848		\$ 6,461,781

	Average Yield	Average Yield	Average Yield
Yield on loans	6.76%	7.97%	8.75%
Cost of interest-bearing liabilities	4.46%	5.59%	6.04%
Interest rate spread	2.31%	2.38%	2.71%

	2008 vs. 2007			2007 vs. 2006		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income	\$ 3,135,582	\$ (3,399,934)	\$ (264,352)	\$ 6,793,558	\$ (1,882,097)	\$ 4,911,461
Interest expense	1,976,537	(2,730,218)	(753,681)	4,506,000	(929,606)	3,576,394
Net interest income	\$ 1,159,044	\$ (669,715)	\$ 489,329	\$ 2,287,558	\$ (952,491)	\$ 1,335,067

Interest income decreased by \$264,352, or 1.4 percent, compared to 2007, primarily due to a general decrease in interest rates offset by an increase in the average loans outstanding. Interest expense for 2008 decreased by \$753,681, or 6.5 percent, compared to 2007 due to a decline in interest rates offset by an increase in interest bearing liabilities. The interest rate spread decreased by 8 basis points to 2.31 percent in 2008 from 2.38 percent in 2007, primarily due to increased competitiveness in the market regarding loan pricing. The interest rate spread decreased by 33 basis points to 2.38 percent in 2007 from 2.71 percent in 2006, primarily due to increased competitiveness in the market regarding loan pricing.

Noninterest income for 2008 increased by \$54,532, or 4.4 percent, compared to 2007, due primarily to increased direct loan patronage from the bank based on a higher level of borrowing to support loan growth. Noninterest income for 2007 increased by \$120,111, or 10.8 percent, compared to 2006, for the same reasons.

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. Salaries and related benefits for 2008 increased \$389,476, or 34.7%, compared to 2007, due primarily to an increase in staffing levels to support the association's growth as well as general benefit cost increases. Salaries and related benefits for 2007 increased \$169,357, or

17.2%, compared to 2006, due primarily to an increase in staffing levels to support the association's growth as well as general benefit cost increases.

For the year ended December 31, 2008, the association's return on average assets was 2.2 percent, as compared to 2.6 percent and 2.9 percent for the years ended December 31, 2007 and 2006, respectively. For the year ended December 31, 2008, the association's return on average members' equity was 13.8 percent, as compared to 15.7 percent and 15.4 percent for the years ended December 31, 2007 and 2006, respectively.

Because the association depends on the bank for funding, any significant positive or negative factors affecting the operations of the bank would have a similar 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 \$254,829,769, \$224,160,520 and \$169,537,531 as of December 31, 2008, 2007 and 2006, respectively, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 4.03 percent, 5.42 percent and 5.30 percent at December 31, 2008, 2007 and 2006, respectively. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by a financing agreement. The increase in the note payable to the bank and related accrued interest payable since December 31, 2007, is due to funding requirements related to loan growth. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were \$42,865,942, \$39,115,539 and \$34,217,167 at December 31, 2008, 2007 and 2006, respectively. The maximum amount the association may borrow from the bank as of December 31, 2008, was \$298,828,141 as defined by the general financing agreement.

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 2009. As borrower payments are received, they are applied to the association's note payable to the bank.

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

Capital Resources:

The association's capital position remains strong, with total members' equity of \$48,367,230, \$42,947,075 and \$37,467,694 at December 31, 2008, 2007 and 2006, 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, 2008, 2007 and 2006 was 14.8 percent, 15.1 percent and 20.1 percent, respectively. The core surplus ratio measures available core surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The association's core surplus ratio at December 31, 2008, 2007 and 2006 was 14.4 percent, 14.6 percent and 19.5 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 3.5 percent. The total surplus ratio measures available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect borrowers' investment in the association. The association's total surplus ratio at December 31, 2008, 2007 and 2006 was 14.4 percent, 14.6 percent and 19.5 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

In 2008, 2007 and 2006, the association paid cash patronage distributions of \$1.25 million, \$1.0 million and \$466 thousand, respectively. In December 2008, the board of directors approved a \$1 million cash patronage distribution to be paid in March 2009. See Note 7 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

Relationship With the Bank:

The association's statutory obligation to borrow only from the bank is discussed in Note 6 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

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

The bank's role in mitigating the association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis and in Note 6 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The bank provides computer systems to support the critical operations of all district associations. In addition, each association has operating systems and facility-based systems that are not supported by the bank. As disclosed in Note 9 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the bank provides many services that the association can utilize, such as administrative, marketing, information systems, and accounting services. Additionally, the bank allocates district expenses to the associations, such as the Farm Credit System Insurance Corporation insurance premiums.

Summary:

Over the past 92 years, 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

LEGACY AG CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	December 31,		
	2008	2007	2006
<u>Assets</u>			
Cash	\$ 1,197,517	\$ 945,605	\$ 654,302
Loans	297,926,871	263,148,094	203,721,619
Less: allowance for loan losses	285,392	84,484	53,318
Net loans	297,641,479	263,063,610	203,668,301
Accrued interest receivable	2,438,582	2,774,301	2,148,654
Investment in and receivable from the bank:			
Capital stock	4,783,045	4,027,805	2,925,090
Other property owned, net	-	38,002	-
Premises and equipment	440,133	338,163	296,623
Other assets	74,756	70,613	65,531
Total assets	<u>\$ 306,575,512</u>	<u>\$ 271,258,099</u>	<u>\$ 209,758,501</u>
<u>Liabilities</u>			
Note payable to the bank	\$ 254,829,769	\$ 224,160,520	\$ 169,537,531
Advance conditional payments	-	2,387	-
Accrued interest payable	882,874	1,015,400	778,906
Drafts outstanding	716,644	1,227,746	225,447
Patronage distributions payable	1,000,411	1,253,617	1,000,000
Other liabilities	778,584	651,354	748,923
Total liabilities	<u>258,208,282</u>	<u>228,311,024</u>	<u>172,290,807</u>
<u>Members' Equity</u>			
Capital stock and participation certificates	1,201,265	1,225,080	1,167,300
Allocated retained earnings	-	-	3,025,627
Unallocated retained earnings	47,017,870	41,529,643	33,274,767
Accumulated other comprehensive income (loss)	148,095	192,352	-
Total members' equity	<u>48,367,230</u>	<u>42,947,075</u>	<u>37,467,694</u>
Total liabilities and members' equity	<u>\$ 306,575,512</u>	<u>\$ 271,258,099</u>	<u>\$ 209,758,501</u>

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

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31,		
	2008	2007	2006
<u>Interest Income</u>			
Loans	\$ 19,058,104	\$ 19,322,456	\$ 14,410,995
Total interest income	19,058,104	19,322,456	14,410,995
<u>Interest Expense</u>			
Note payable to the bank	10,771,821	11,525,608	7,949,214
Advance conditional payments	129	23	-
Total interest expense	10,771,950	11,525,631	7,949,214
Net interest income	8,286,154	7,796,825	6,461,781
<u>Provision for Losses</u>			
Provision for loan losses or (loan loss reversal)	200,908	203,298	31,111
Provision for acquired property losses	-	4,200	-
Net interest income after provisions for losses	8,085,246	7,589,327	6,430,670
<u>Noninterest Income</u>			
Income from the bank:			
Patronage income	904,026	782,646	557,638
Loan fees	367,641	433,886	471,939
Financially related services income	2,111	2,279	2,811
Gain (loss) on other property owned, net	546	(84)	53,861
Other noninterest income	13,865	14,930	27,297
Total noninterest income	1,288,189	1,233,657	1,113,546
<u>Noninterest Expenses</u>			
Salaries and employee benefits	1,545,681	1,156,205	986,848
Directors' expense	143,226	122,890	133,301
Purchased services	304,029	274,029	277,992
Travel	84,905	52,779	48,155
Occupancy and equipment	97,745	83,716	109,491
Communications	23,726	19,364	18,875
Advertising	41,361	57,166	54,651
Public and member relations	79,886	61,842	41,911
Supervisory and exam expense	92,353	79,048	68,166
Insurance Fund premiums	396,555	364,003	269,457
Other noninterest expense	77,803	72,621	86,311
Total noninterest expenses	2,887,270	2,343,663	2,095,158
Income before income taxes	6,486,165	6,479,321	5,449,058
Benefit from income taxes	-	-	-
Net income	\$ 6,486,165	\$ 6,479,321	\$ 5,449,058

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

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2005	\$ 1,073,575	\$ -	\$ 31,866,947	\$ -	\$ 32,940,522
Net income	-	-	5,449,058	-	5,449,058
Capital stock/participation certificates issued	219,465	-	-	-	219,465
Capital stock/participation certificates and allocated retained earnings retired	(125,740)	-	-	-	(125,740)
Other			(15,611)		(15,611)
Patronage refunds:					
Cash	-	-	(1,000,000)	-	(1,000,000)
Capital stock/participation certificates and allocated retained earnings	-	3,025,627	(3,025,627)	-	-
Balance at December 31, 2006	1,167,300	3,025,627	33,274,767	-	37,467,694
Net income	-	-	6,479,321	-	6,479,321
Adjustment to initially apply FAS No. 158	-	-	-	192,352	192,352
Capital stock/participation certificates issued	176,240	-	-	-	176,240
Capital stock/participation certificates and allocated retained earnings retired	(118,460)	-	-	-	(118,460)
Other			(72)		(72)
Patronage refunds:					
Cash	-	-	(1,250,000)	-	(1,250,000)
Capital stock/participation certificates and allocated retained earnings	-	(3,025,627)	3,025,627	-	-
Balance at December 31, 2007	1,225,080	-	41,529,643	192,352	42,947,075
Adjustment to beginning balance due to FAS No. 158 accounting change	-	-	(1,017)	-	(1,017)
Balance at January 1, 2008	1,225,080	-	41,528,626	192,352	42,946,058
Comprehensive income					
Net income	-	-	6,486,165	-	6,486,165
Amortization of costs included in periodic retirement benefit costs	-	-	-	(44,257)	(44,257)
Total comprehensive income	-	-	6,486,165	(44,257)	6,441,908
Capital stock/participation certificates issued	130,635	-	-	-	130,635
Capital stock/participation certificates and allocated retained earnings retired	(154,450)	-	-	-	(154,450)
Other			3,079		3,079
Patronage refunds:					
Cash	-	-	(1,000,000)	-	(1,000,000)
Balance at December 31, 2008	\$ 1,201,265	\$ -	\$ 47,017,870	\$ 148,095	\$ 48,367,230

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

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2008	2007	2006
Cash flows from operating activities:			
Net income	\$ 6,486,165	\$ 6,479,321	\$ 5,449,058
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	200,908	203,298	31,111
Provision for acquired property	-	4,200	-
Gain on other property owned, net	(546)	-	(53,861)
Depreciation	54,096	31,839	36,152
Decrease (increase) in accrued interest receivable	335,719	(625,647)	(885,586)
(Increase) decrease in other assets	(4,144)	19,935	28,723
(Decrease) increase in accrued interest payable	(132,526)	236,494	284,272
Increase in other liabilities	80,820	94,783	195,856
Net cash provided by operating activities	7,020,492	6,444,223	5,085,725
Cash flows from investing activities:			
Increase in loans, net	(34,778,777)	(60,165,506)	(41,555,369)
Cash recoveries of loans previously charged off	-	499,680	-
Purchase of investments in the bank	(755,240)	(1,102,715)	(737,320)
Purchases of premises and equipment	(156,066)	(73,378)	(38,534)
Proceeds from sales of premises and equipment	-	-	947
Proceeds from sales of other property owned	39,685	-	177,793
Net cash used in investing activities	(35,650,398)	(60,841,919)	(42,152,483)

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

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2008	2007	2006
Cash flows from financing activities:			
Net draws on note payable to the bank	30,669,249	54,622,989	38,065,962
(Decrease) increase in drafts outstanding	(511,102)	1,002,299	(367,163)
(Decrease) increase in advance conditional payments	(2,387)	2,387	-
Issuance of capital stock and participation certificates	130,635	176,240	219,465
Retirement of capital stock and participation certificates	(154,450)	(118,460)	(125,740)
Patronage distributions paid	(1,250,127)	(996,456)	(465,611)
Net cash provided by financing activities	28,881,818	54,688,999	37,326,913
 Net increase in cash	 251,912	 291,303	 260,155
 Cash at the beginning of the year	 945,605	 654,302	 394,147
 Cash at the end of the year	 \$ 1,197,517	 \$ 945,605	 \$ 654,302

Supplemental schedule of noncash investing and financing activities:

Loans transferred to other property owned	\$ -	\$ 67,219	\$ 123,931
Loans charged off	-	671,812	-
Patronage distributions declared	1,000,000	1,250,000	1,000,000

Supplemental cash information:

Cash paid during the year for:			
Interest	\$ 10,904,476	\$ 11,289,137	\$ 7,664,942

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

LEGACY AG CREDIT, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND OPERATIONS:

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

The association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act). The most recent significant amendment to the Act was the Agricultural Credit Act of 1987 (1987 Act). At December 31, 2008, the System consisted of four Farm Credit Banks and their affiliated associations, one Agricultural Credit Bank 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, 2008, the district consisted of the bank, 6 FLCAs and 13 ACA parent companies, which have two wholly-owned subsidiaries, a FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the associations, and certain actions by the associations are subject to the prior approval of the FCA and the supervising bank.

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 associations into the Insurance Fund, based on its annual average loan principal outstanding, until the monies in the Insurance Fund reach the “secure base amount,” which is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (Systemwide debt obligations) 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, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount. In June 2008, with the passage of the Food, Conservation, and Energy Act of 2008 (Farm Bill), the basis for assessing premiums was changed, beginning with the second half of 2008, to reflect each Bank’s pro rata share of outstanding insured debt. The Farm Bill imposes premiums of 20 basis points on adjusted insured debt obligations, with the Insurance Corporation Board having the ability to reduce the amount, and a risk surcharge of 10 basis points on nonaccrual loans and other-than-temporarily impaired investments.

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

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

The association also serves as an intermediary in offering credit life insurance and multi-peril crop insurance.

The association's financial condition may be affected by factors that affect the bank. The financial condition and results of operations of the bank may materially affect stockholders' investment in the association. Upon request, stockholders of the association will be provided with the Tenth Farm Credit District's Annual Report to Stockholders, which includes the combined financial statements of the bank and all of the district associations. The district's annual report discusses the material aspects of the financial condition, changes in financial condition, and results of operations for the bank and the district. In addition, the district's annual report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Fund.

The lending and financial services offered by the bank are described in Note 1 of the district's annual report to stockholders.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting and reporting policies of the association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results could differ from those estimates. Certain amounts in prior years' consolidated financial statements have been reclassified to conform to current financial statement presentation. 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. Cash and Cash Equivalents: Cash and cash equivalents, as included in the statement of cash flows, represent cash on hand and on deposit at local banks.
- B. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 40 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs.

Statement of Financial Accounting Standards (SFAS) No. 91, "Accounting for Nonrefundable Fees and Costs Associated With Originating and Acquiring Loans and Initial Direct Costs of Leases," 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. SFAS No. 91 has not been implemented because the effects were not material to the financial position or results of operations for any year presented.

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. 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.

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. 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).

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 transferred to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, and the loan is not classified as "doubtful" or "loss." If previously unrecognized interest income exists upon transfer of a nonaccrual loan to accrual status, interest income will be recognized as cash payments are received.

In cases where a borrower experiences financial difficulties and the association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

Loans are charged off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

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 and prior loan loss experience. It is based on estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change.

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

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

- D. **Other Property Owned, Net:** Other property owned, net, consisting of real and personal property acquired through a collection action, is recorded at fair value less estimated selling costs upon acquisition. 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 gains (losses) on other property owned, net.
- E. **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.
- F. **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.
- G. **Employee Benefit Plans:** Employees of the association participate in either the defined benefit retirement plan (DB Plan) or the defined contribution plan (DC Plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. Also, the association sponsors a nonqualified defined contribution 401(k) plan. The DB Plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB Plan is noncontributory and provides benefits based on salary and years of service. The "Projected Unit Credit" actuarial method is used for financial reporting and funding purposes for the DB Plan.

Participants in the DC Plan generally include employees who elected to transfer from the DB Plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC Plan direct the placement of their employers' contributions, 5.0 percent of salaries for the year ended December 31, 2008, made on their behalf into various investment alternatives.

The structure of the district's DB and DC plans are characterized as multi-employer, since neither the assets, liabilities nor costs of any 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 \$38,136, \$23,107 and \$16,187 for the years ended December 31, 2008, 2007 and 2006, respectively. For the DB Plan, the association recognized pension costs of \$116,586, \$52,236 and \$53,687 for the years ended December 31, 2008, 2007 and 2006, respectively.

The association also participates in the Farm Credit Benefits Alliance 401(k) Plan which requires the associations to match 100 percent of employee contributions up to 3.0 percent of base salary and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of base salary. Association 401(k) plan costs are expensed as incurred. The association's contributions to the 401(k) plan were \$37,133, \$25,573 and \$21,652 for the years ended December 31, 2008, 2007 and 2006, 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. Employees hired before January 1, 2004 and retiring on or after January 1, 2006 who are at least age 55, or age 50 with at least 30 years of service, may qualify for association subsidized medical coverage.

H. **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. The association distributes patronage on the basis of book income. Deferred taxes are recorded on 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 (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 our expected patronage program, which reduces taxable earnings. Management has recorded a valuation allowance to fully offset the deferred tax assets of the association. During 2008, the association declared patronage refunds of \$1,000,000 and generated taxable income of approximately \$200,000. As of December 31, 2008, the association has net operating loss carryforwards approximating \$500,000.

I. **Patronage Refunds From the Farm Credit Bank of Texas:** The association records patronage refunds from the bank upon receipt of the patronage.

J. **Fair Value Measurement:** Effective January 1, 2008, the System adopted SFAS No. 157, "Fair Value Measurements." This Statement 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. Assets held in trust funds relate to deferred compensation and our supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

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.

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, and highly structured or long-term derivative contracts.

The association has no assets or liabilities that are required to be recorded at fair value in accordance with SFAS No. 157.

- K. Recently Issued Accounting Pronouncements: In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 161, "Disclosures about Derivative Instruments and Hedging Activities," which amends and expands the disclosure requirements for derivative instruments and for hedging activities previously required by SFAS No. 133. It states that an entity with derivative instruments shall disclose information to enable users of the financial statements to understand: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under this Statement and related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The association does not expect adoption of SFAS No. 161 to have any impact on its financial statement disclosures.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

Loan Type	2008		2007		2006	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 253,275,434	85.1%	\$ 227,970,200	86.6%	\$ 165,911,883	81.5%
Production and intermediate term	35,254,276	11.8%	29,217,598	11.1%	23,024,059	11.3%
Agribusiness:						
Processing and marketing	974,800	0.3%	-	0.0%	-	0.0%
Farm-related business	1,866,662	0.6%	1,976,977	0.8%	10,237,398	5.0%
Communication	2,630,615	0.9%	-	0.0%	-	0.0%
Energy	1,890,382	0.6%	2,119,388	0.8%	2,296,152	1.1%
Rural residential real estate	2,015,859	0.7%	1,863,931	0.7%	2,252,127	1.1%
Lease receivables	18,843	0.0%	-	0.0%	-	0.0%
Total	<u>\$ 297,926,871</u>	<u>100.0%</u>	<u>\$ 263,148,094</u>	<u>100.0%</u>	<u>\$ 203,721,619</u>	<u>100.0%</u>

Geographic Distribution:

County	2008	2007	2006
Van Zandt	18.5%	18.7%	20.9%
Hopkins	18.0%	19.7%	21.7%
Kaufman	12.4%	10.9%	11.0%
Wood	10.2%	8.7%	9.7%
Upshur	7.8%	9.0%	9.7%
Harrison	4.0%	4.7%	4.9%
Franklin	3.9%	3.9%	4.4%
Other Texas Counties	19.4%	19.6%	11.9%
Other States	5.8%	4.8%	5.8%
Totals	100.0%	100.0%	100.0%

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

Operation/Commodity	2008		2007		2006	
	Amount	%	Amount	%	Amount	%
Livestock, except dairy and poultry	\$ 119,821,501	40.2%	\$ 110,926,511	42.2%	\$ 99,620,287	48.9%
Dairy farms	38,906,408	13.1%	36,420,207	13.8%	39,614,066	19.4%
Field crops except cash grains	33,484,036	11.2%	25,803,421	9.8%	21,830,789	10.7%
Poultry and eggs	26,433,480	8.9%	18,711,497	7.1%	12,451,046	6.1%
Food and kindred products	21,442,501	7.2%	18,260,580	6.9%	4,333,883	2.1%
Timber	20,374,151	6.8%	22,710,087	8.6%	17,609,702	8.6%
Hunting, trapping and game propagation	9,980,871	3.4%	10,694,671	4.1%	5,609,364	2.8%
Real estate	7,621,447	2.6%	7,754,309	2.9%	-	0.0%
Other	19,862,476	6.6%	11,866,811	4.6%	2,652,482	1.4%
Total	\$ 297,926,871	100.0%	\$ 263,148,094	100.0%	\$ 203,721,619	100.0%

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are secured by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (or 97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the association in the collateral, may result in the loan-to-value ratios in excess of the regulatory maximum.

Asset Quality:

The following table reflects the credit quality of the association's loan volume as of December 31:

	2008	2007	2006
Acceptable	98.2%	99.5%	98.8%
Special mention	0.2%	0.2%	1.0%
Substandard	1.6%	0.3%	0.2%
Doubtful	0.0%	0.0%	0.0%
Loss	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms. The following presents information relating to impaired loans as of December 31:

	2008		2007		2006	
	Amount	%	Amount	%	Amount	%
Nonaccrual loans						
Current as to principal and interest	\$ 515,688	32.4%	\$ -	0.0%	\$ 7,845	2.4%
Past due	1,073,964	67.6%	546,870	62.7%	319,080	97.6%
Total nonaccrual loans	<u>1,589,652</u>	<u>100.0%</u>	<u>546,870</u>	<u>62.7%</u>	<u>326,925</u>	<u>100.0%</u>
Accrual loans						
90 days or more past due	-	0.0%	325,129	37.3%	-	0.0%
Formally restructured	-	0.0%	-	0.0%	-	0.0%
Total impaired accrual loans	<u>-</u>	<u>0.0%</u>	<u>325,129</u>	<u>37.3%</u>	<u>-</u>	<u>0.0%</u>
Total impaired loans	<u>\$ 1,589,652</u>	<u>100.0%</u>	<u>\$ 871,999</u>	<u>100.0%</u>	<u>\$ 326,925</u>	<u>100.0%</u>

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2008.

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2, "Summary of Significant Accounting Policies." The following table presents interest income recognized on impaired loans.

	2008	2007	2006
Interest income recognized on nonaccrual loans	\$ 14,225	\$ 60,024	\$ 32,796
Interest income recognized on impaired accrual loans	-	30,451	-
Interest income recognized on impaired loans	<u>\$ 14,225</u>	<u>\$ 90,475</u>	<u>\$ 32,796</u>

A summary of the allowance for loan losses as of December 31 follows:

	2008	2007	2006
Beginning balance	\$ 84,484	\$ 53,318	\$ 22,207
Provision for loan losses	200,908	203,298	31,111
Loans charged off	-	(671,812)	-
Recoveries	-	499,680	-
Allowance for loan losses	<u>\$ 285,392</u>	<u>\$ 84,484</u>	<u>\$ 53,318</u>

The following table presents information concerning impaired loans as of December 31:

	2008	2007	2006
Impaired loans with related allowance	\$ 957,310	\$ 182,206	\$ -
Impaired loans with no related allowance	632,342	689,793	326,925
Total impaired loans	<u>\$ 1,589,652</u>	<u>\$ 871,999</u>	<u>\$ 326,925</u>
Allowance on impaired loans	<u>\$ 50,650</u>	<u>\$ 13,405</u>	<u>\$ -</u>

The following table summarizes impaired loan information for the years ended December 31:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Average impaired loans	\$ 417,845	\$ 541,377	\$ 337,760

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Interest income which would have been recognized under the original terms	\$ 50,501	\$ 202,755	\$ 95,594
Less: interest income recognized	(14,225)	(90,475)	(32,796)
Foregone interest income	<u>\$ 36,276</u>	<u>\$ 112,280</u>	<u>\$ 62,798</u>

NOTE 4 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Land and improvements	\$ 81,434	\$ 81,434	\$ 65,456
Building and improvements	388,665	351,063	351,063
Furniture and equipment	52,751	39,534	39,534
Computer equipment and software	44,360	22,525	22,525
Automobiles	150,267	101,240	75,789
	<u>717,477</u>	<u>595,796</u>	<u>554,367</u>
Accumulated depreciation	(277,344)	(257,633)	(257,744)
Total	<u>\$ 440,133</u>	<u>\$ 338,163</u>	<u>\$ 296,623</u>

The association leases office space in Kaufman. Lease expense was \$3,300, \$3,300 and \$3,600 for 2008, 2007 and 2006, respectively. The lease is on a month to month basis.

NOTE 5 – OTHER PROPERTY OWNED, NET:

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Gain (loss) on sale, net	\$ 1,683	\$ -	\$ 53,861
Carrying value adjustments	-	(4,200)	-
Operating income (expense), net	(1,137)	(84)	-
Net gain (loss) on other property owned	<u>\$ 546</u>	<u>\$ (4,284)</u>	<u>\$ 53,861</u>

NOTE 6 — 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 total amount and the weighted average interest rate of the association's direct loan from the bank at December 31, 2008, 2007 and 2006, was \$254.8 million at 4.03 percent, \$224.2 million at 5.42 percent and \$169.5 million at 5.30 percent, respectively.

Under the Act, the association is obligated to borrow only from the bank unless the bank approves borrowing from other funding sources. The bank and FCA regulations have established limitations on the association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2008, 2007 and 2006, the association's note payable was within the specified limitations. The maximum amount the association may borrow from the bank as of December 31, 2008, was \$298,828,141 million, 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 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, 2008, 2007 and 2006, the association was not subject to remedies associated with the covenants in the financing agreement.

NOTE 7 — MEMBERS' EQUITY:

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 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 as set by the board in December of 2004. The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually by adding the aggregate par value of the capital stock or participation certificates to the principal amount of the related loan obligation. The capital stock or participation certificates are subject to a first lien by the association. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding capital stock or participation certificates.

If needed to meet regulatory capital adequacy requirements, the board of directors of the association may increase the percentage of stock requirement for each borrower up to a maximum of 5 percent of the loan amount.

Each owner of Class A capital stock is entitled to a single vote, while participation certificates provide no voting rights to their owners.

Within two years of repayment of a loan, the association capital bylaws require the conversion of any borrower's outstanding Class A to Class C stock. Class C stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of Class C shares is made solely at the discretion of the association's board of directors. At December 31, 2008, 2007 and 2006, the association had \$2,635, \$40,105 and \$40,000, respectively, of Class C stock.

All borrower stock is at-risk. As such, losses that result in impairment of capital stock or participation certificates shall be borne on a pro rata basis by all holders of Class A, Class C capital stock and participation certificates. In the event of liquidation of the association, capital stock and participation certificates would be utilized as necessary to satisfy any remaining obligations in excess of the amounts realized on the sale or liquidation of assets. Any excess of the amounts realized on the sale or liquidation of assets over the association's obligations to external parties and to the bank would be distributed to the association's stockholders.

Dividends and patronage distributions may be paid on the capital stock and participation certificates of the association, as the board of directors may determine by resolution subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. The following dividends and patronage distributions were declared and paid in 2008, 2007 and 2006, respectively:

<u>Date Declared</u>	<u>Date Paid / Payable</u>	<u>Patronage</u>
December 2008	March 2009	\$1,000,000
December 2007	March 2008	\$1,250,000
December 2006	March 2007	\$1,000,000

The FCA's capital adequacy regulations require the association to achieve permanent capital and total surplus of at least 7.0 percent and core surplus of at least 3.5 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the ratio requirements can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the association's financial statements. The association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to stockholders unless prescribed capital standards are met. The association's permanent capital ratio, core surplus ratio and total surplus ratio at December 31, 2008, were 14.8 percent, 14.4 percent and 14.4 percent, respectively.

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

An FCA regulation empowers the FCA to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

At December 31, the association had the following shares of Class A capital stock, Class B stock and participation certificates outstanding at a par value of \$5 per share:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Class A stock	233,470	230,154	218,118
Class C stock	527	8,021	8,000
Participation certificates	6,256	6,841	7,342
Total	240,253	245,016	233,460

NOTE 8 — 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. Also, the association sponsors a nonqualified defined contribution 401(k) plan. These plans are described more fully in section G of Note 2, "Summary of Significant Accounting Policies."

Other Postretirement Benefits: 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. Employees hired before January 1, 2004 and retiring on or after January 1, 2006 who are at least age 55, or age 50 with at least 30 years of service, may qualify for association subsidized medical coverage.

In September 2006, the FASB issued SFAS No. 158, which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of SFAS 158 were adopted at December 31, 2007. SFAS 158 also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, the System used a September 30 measurement date for pension and other postretirement benefit plans. The Standard provides two approaches for an employer to transition to a fiscal year-end measurement date. The System has applied the second approach, which allows for the use of the measurements determined for the prior year end.

Under this alternative, pension and postretirement benefit income measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 2007 measurement date) was recorded as an adjustment to beginning 2008 retained earnings. As a result, the association decreased retained earnings \$1,107, and decreased the pension and other postretirement benefit liabilities by \$1,107.

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

**10th Farm Credit District
Retiree Welfare Benefit Plans**

Disclosure Information Under FASB Statement 132	2008	2007	2006
Change in Accumulated Postretirement Benefit Obligation			
Accumulated Postretirement Benefit Obligation, Beginning of Year	\$ 238,741	\$ 263,932	\$ 282,248
Service Cost	11,350	12,149	13,600
Interest Cost	18,963	15,532	14,515
Plan Participants' contributions	720	600	897
Plan Amendments	-	-	(2,906)
Special Termination Benefits	-	-	-
Actuarial Loss (Gain)	26,382	(44,695)	(35,290)
Benefits Paid	(13,820)	(8,777)	(9,132)
Accumulated Postretirement Benefit Obligation, End of Year	\$ 282,336	\$ 238,741	\$ 263,932
Change in Plan Assets			
Plan Assets at Fair Value, Beginning of Year	\$ -	\$ -	\$ -
Actual Return on Plan Assets	-	-	-
Company Contributions	13,100	8,177	8,235
Plan Participants' contributions	720	600	897
Benefits Paid	(13,820)	(8,777)	(9,132)
Plan Assets at Fair Value, End of Year	\$ -	\$ -	\$ -
Funded Status of the Plan	\$ (282,336)	\$ (238,741)	\$ (263,932)
Amounts Recognized in Statement of Financial Position			
Noncurrent Assets	\$ -	\$ -	\$ -
Current Liabilities	(11,630)	-	-
Noncurrent Liabilities	(270,706)	(236,199)	(438,216)
Total	\$ (282,336)	\$ (236,199)	\$ (438,216)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net Actuarial Loss (Gain)	\$ (22,811)	\$ (48,814)	\$ -
Prior Service Cost (Credit)	(125,284)	(150,892)	-
Net Transition Obligation (Asset)	-	-	-
Total	\$ (148,095)	\$ (199,706)	\$ -
Additional Information			
Increase in minimum liability included in other comprehensive income	\$ 51,611	\$ -	\$ -
Weighted-Average Assumptions Used to Determine Obligations at Year-end			
Measurement Date	12/31/2008	9/30/2007	9/30/2006
Discount Rate	6.30%	6.50%	6.00%
Health Care Cost Trend Rate Assumed for Next Year (pre-/post-65) - Medical	8.5%/6.5%	8.5%/6.5%	9.0%/6.75%
Health Care Cost Trend Rate Assumed for Next Year - Rx	12.00%	12.00%	13.00%
Ultimate Health Care Cost Trend Rate	5.00%	4.75%	4.75%

Total Cost	2008	2007	2006
Service Cost	\$ 9,080	\$ 12,149	\$ 13,600
Interest Cost	15,170	15,532	14,515
Expected Return on Plan Assets	-	-	-
Amortization of:			
Unrecognized Net Transition Obligation (Asset)	-	-	-
Unrecognized Prior Service Cost	(20,486)	(21,945)	(21,823)
Unrecognized Net Loss (Gain)	303	333	293
Net Postretirement Benefit Cost	\$ 4,067	\$ 6,069	\$ 6,585
Adjustment to Retained Earnings for 2008 due to change in measurement date	\$ 1,017	\$ -	\$ -
FAS88 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)	\$ 26,382	\$ -	\$ -
Amortization of Net Actuarial Loss (Gain)	(379)	-	-
FAS88 recognition of Loss (Gain)	-	-	-
Prior Service Cost (Credit)	-	-	-
Amortization of Prior Service Cost	25,608	-	-
FAS88 Recognition of Prior Service cost	-	-	-
Amortization of Transition Liability (Asset)	-	-	-
Total Recognized in Other Comprehensive Income	\$ 51,611	\$ -	\$ -
AOCI Amounts Expected to be Amortized into Expense in 2009			
Unrecognized Net Transition Obligation (Asset)	\$ -	N/A	N/A
Unrecognized Prior Service Cost	(20,246)	N/A	N/A
Unrecognized Net Loss (Gain)	-	N/A	N/A
Total	\$ (20,246)	N/A	N/A
Weighted-Average Assumptions Used to Determine Benefit Cost			
Measurement Date	9/30/2007	9/30/2006	9/30/2005
Discount Rate	6.50%	6.00%	5.25%
Health Care Cost Trend Rate Assumed for Next Year (pre-/post-65) - Medical	9.0%/6.75%	9.0%/6.75%	9.5%/7.0%
Health Care Cost Trend Rate Assumed for Next Year - Rx	13.00%	13.00%	13.50%
Ultimate Health Care Cost Trend Rate	4.75%	4.75%	4.75%
Year that the Rate Reaches the Ultimate Trend Rate	2016	2016	2016

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)

Fiscal 2009	\$ 11,630
Fiscal 2010	12,728
Fiscal 2011	14,159
Fiscal 2012	15,988
Fiscal 2013	18,119
Fiscal 2014–2018	107,493

Expected Contributions

Fiscal 2009	\$ 11,630
-------------	-----------

NOTE 9 — 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 and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons for the association amounted to \$7,996,118, \$4,413,322 and \$3,870,260 at December 31, 2008, 2007 and 2006, respectively. During 2008, \$6,855,575 of new loans were made and repayments totaled \$3,272,779. In the opinion of management, no such loans outstanding at December 31, 2008, 2007 and 2006 involved more than a normal risk of collectability.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems, accounting services and allocations of expenses incurred by the bank 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 \$602,201, \$560,769 and \$465,303 in 2008, 2007 and 2006, respectively.

The association received patronage payments from the bank totaling \$904,026, \$782,646 and \$557,638 during 2008, 2007 and 2006, respectively.

NOTE 10 — 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, 2008, \$10.2 million of commitments and \$10.2 thousand of commercial letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the balance sheet until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

NOTE 11 — DISCLOSURE ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS:

The following table presents the carrying amounts and estimated fair values of the association's financial instruments at December 31, 2008, 2007 and 2006. Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, discount rates, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the association's financial instruments as of December 31 follow:

	2008		2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets						
Cash	\$ 1,197,517	\$ 1,197,517	\$ 945,605	\$ 945,605	\$ 654,302	\$ 654,302
Loans, net	297,641,479	312,696,453	263,063,610	265,807,016	203,668,301	204,291,526
Financial liabilities						
Note payable to the bank	254,829,769	267,487,684	224,160,520	226,402,125	169,537,531	170,056,316

A description of the methods and assumptions used to estimate the fair value of each class of the association's financial instruments for which it is practicable to estimate that value follows:

A. Cash:

The carrying value is a reasonable estimate of fair value.

B. Loans:

Because no active market exists for the association's loans, fair value is estimated by discounting the expected future cash flows using the association's current interest rates at which similar loans would be made to borrowers with similar credit risk. As the discount rates are based on the association's loan rates as well as on management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows and discount rates reflecting appropriate credit risk are determined separately for each individual pool.

Fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher discount rates to reflect the uncertainty of continued cash flows. For noncurrent nonaccrual loans, it is assumed that collection will result only from the disposition of the underlying collateral. Fair value of these loans is estimated to equal the aggregate net realizable value of the underlying collateral, discounted at an interest rate that appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of net realizable value.

The carrying value of accrued interest approximates its fair value.

C. Investment in the Bank:

Estimating the fair value of the association's investment in the bank is not practicable because the stock is not traded. As described in Note 2, "Summary of Significant Accounting Policies," the investment is a requirement of borrowing from the bank and is carried at cost plus allocated equities in the accompanying consolidated balance sheet. The association owns 2.10 percent of the equity of the bank as of December 31, 2008. As of that date, the bank's assets totaled \$14.8 billion and members' equity totaled \$744.5 million. The bank's earnings were \$76.7 million during 2008.

D. Note Payable to the Bank:

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.

E. Commitments to extend credit:

The association does not normally capitalize and amortize fees on its commitments to extend credit; hence, there are no financial instruments associated with these commitments.

NOTE 12 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

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

	2008				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,027	\$ 2,037	\$ 2,128	\$ 2,094	\$ 8,286
(Provision for) reversal of loan losses	(16)	9	(32)	(162)	(201)
Noninterest income (expense), net	(510)	(658)	(465)	34	(1,599)
Net income	<u>\$ 1,501</u>	<u>\$ 1,388</u>	<u>\$ 1,631</u>	<u>\$ 1,966</u>	<u>\$ 6,486</u>

	2007				
	First	Second	Third	Fourth	Total
Net interest income	\$ 1,800	\$ 1,940	\$ 2,016	\$ 2,041	\$ 7,797
(Provision for) reversal of loan losses	-	(731)	-	528	(203)
Noninterest income (expense), net	(397)	(435)	(349)	66	(1,115)
Net income	<u>\$ 1,403</u>	<u>\$ 774</u>	<u>\$ 1,667</u>	<u>\$ 2,635</u>	<u>\$ 6,479</u>

	2006				
	First	Second	Third	Fourth	Total
Net interest income	\$ 1,524	\$ 1,547	\$ 1,655	\$ 1,736	\$ 6,462
(Provision for) reversal of loan losses	-	-	(8)	(23)	(31)
Noninterest income (expense), net	(336)	(384)	(300)	38	(982)
Net income	<u>\$ 1,188</u>	<u>\$ 1,163</u>	<u>\$ 1,347</u>	<u>\$ 1,751</u>	<u>\$ 5,449</u>

Disclosure Information and Index

Disclosures Required by Farm Credit Administration Regulations

DESCRIPTION OF BUSINESS

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

The descriptions of significant developments that had or could have a material impact on earnings or interest rates to borrowers and acquisitions or dispositions of material assets, if any, required to be disclosed in this section are incorporated herein by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

DESCRIPTION OF PROPERTY

The Legacy Ag Credit, ACA (association) serves its 10 county territory through its main administrative and lending office at 303 Connally St., Sulphur Springs, Texas 75482. Additionally, there are three branch lending offices located throughout the territory. The association owns the office buildings in Sulphur Springs, Gilmer and Canton, free of debt. The association leases the office buildings in Kaufman on a month to month basis.

LEGAL PROCEEDINGS

In the ordinary course of business, the association is involved in various legal proceedings. In the opinion of management, there are no legal proceedings at this time that are likely to materially affect the consolidated financial statements of the association.

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference from Note 7 to the consolidated financial statements, "Members' Equity," included in this annual report.

DESCRIPTION OF LIABILITIES

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Notes 2 and 10 to the consolidated financial statements, "Summary of Significant Accounting Policies" and "Commitments and Contingencies," respectively, included in this annual report.

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

The association's financial condition may be impacted by factors that affect the Farm Credit Bank of Texas (bank), as discussed in Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report. The financial condition and results of operations of the bank may materially affect the stockholders' investment in the association.

The Tenth Farm Credit District's (district) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720-2590 or calling (512) 483-9204. Copies of the district's annual and quarterly stockholder reports can also be requested by e-mailing fcf@farmcreditbank.com. The district's annual and quarterly stockholder reports are also available on its Web site 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.jennings@legacyagcreditaca.com. The association's annual stockholder

report is available on its Web site 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, 2008, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Combined Financial Data" included in this annual report to stockholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

"Management's Discussion and Analysis," which precedes the combined 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:

<u>NAME</u>	<u>POSITION</u>	<u>DATE ELECTED/ EMPLOYED</u>	<u>TERM EXPIRES</u>
John O. Powell	Chairman	1977	2010
Roy Dan Deen	Vice Chairman	1992	2010
A. G. Sandifeer	Director	2001	2011
Cody Newman	Director	2000	2010
J. L. Sustaire	Director	1981	2009
Jerry Cordell	Director	1979	2011
Wayne Bawcum, C.P.A.	Director At Large	2008	2010
Lee E. Warren	Chief Executive Officer/President	1985	-
Joel Harlow	Chief Credit Officer/Senior Vice President	1993	-
Daryl D. Belt	Chief Financial Officer/Senior Vice President	2007	-

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

John O. Powell, age 74. Mr. Powell retired from Texas Instruments after 39 years of service. He operates a farming operation and resides in Van Zandt County. He has served as a director continuously since 1977.

Roy Dan Deen, age 60. Mr. Deen is a partner in R & D Cattle Company and R & S Cattle Company. He has produced hay and small grain in conjunction with his cattle operation for over 30 years. Mr. Deen serves on the board of the Kaufman – Van Zandt – Rockwall Soil and Conservation Board. He has served on the association board since 1992.

A. G. Sandifeer, age 66. Mr. Sandifeer retired from TXU after 36 years of service. Mr. Sandifeer currently works with J & L Utility Construction Co., and also is a cattle rancher. He was elected director in 2001.

Cody Newman, age 60. Mr. Newman is a partner in a family business that manages and develops oil, gas, real estate and ranch properties. Mr. Newman serves on the board of the Upshur Rural Electric Cooperative Corporation. He served as director at large for the association since August, 2000 and was elected director in October, 2008.

J. L. Sustaire, age 72. Mr. Sustaire owns and operates a beef cattle operation in Hopkins County. He has served as a director continuously since 1981.

Jerry Cordell, age 67. Mr. Cordell owns and operates a beef cattle operation in Kaufman County and previously owned an agricultural retail business. He has served as a director continuously since 1979.

Wayne Bawcum C.P.A., age 60. Mr. Bawcum is a CPA and is currently senior partner with Bawcum & Preuss, CPA's in Sulphur Springs, Texas. He has served as director at large since October, 2008.

Lee E. Warren, Chief Executive Officer / President, joined the Association in 1985.

Joel Harlow, Chief Credit Officer / Senior Vice President, has been in the Canton branch office since 1993.

Daryl D. Belt, Chief Financial Officer / Senior Vice President, was hired in 2007. Mr. Belt has been with the Farm Credit System since 1993 in various capacities with associations and the district bank.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Directors were compensated for their service to the association in the form of an honorarium at the rate of \$600 per day for director meetings and committee meetings, and they were reimbursed for certain expenses incurred while representing the association in an official capacity. Mileage for attending official meetings during 2008 was paid at the IRS-approved rate. 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 2008
	Board Meetings	Other Official Activities	
John O. Powell	12	15	\$16,200
Roy Dan Deen	12	13	\$15,000
A. G. Sandifeer	11	13	\$14,400
Cody Newman	12	11	\$13,800
J. L. Sustaire	12	13	\$15,000
Jerry Cordell	12	13	\$15,000
Wayne Bawcum (elected 10/15/08)	3	0	\$1,800
Carl Swendson (retired 9/17/08)	8	13	\$12,600
Total			\$103,800

The aggregate compensation paid to directors in 2008, 2007 and 2006 was \$103,800, \$90,160 and \$90,300, respectively.

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was \$39,426, \$32,730 and \$43,001 in 2008, 2007 and 2006, respectively.

Name of Individual or Group	Year	Salary	Bonus	Deferred/ Perquisite	Other	Total	
Lee E Warren, CEO/President	2008	\$155,006	\$35,000	\$17,154	\$	\$207,160	
	2007	\$145,006	\$34,000	\$16,482	\$	\$195,488	
	2006	\$130,005	\$27,000	\$13,232	\$	\$170,237	
Aggregate No. of highest paid Officers in Year	(5)	2008	\$481,343	\$111,000	\$96,622	\$	\$688,965
	(5)	2007	\$407,166	\$113,000	\$80,113	\$	\$600,279
	(5)	2006	\$360,306	\$80,000	\$68,826	\$	\$509,132

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

Total compensation for the five most highly paid officers of the association, including bonuses, was \$688,965, \$600,279 and \$509,132 in 2008, 2007 and 2006, respectively. Bonuses paid to such officers for 2008, 2007 and 2006 were \$111,000, \$113,000 and \$80,000, respectively.

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. For the Association's five most highly compensated employees, 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 assigned association automobiles reimburse the association for personal miles based on board-established parameters. Employees who use their personal automobile for business purposes were reimbursed during 2008 at the IRS-approved rate.

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 9 to the consolidated financial statements, "Related Party Transactions," included in this annual report.

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

There have been no events that have occurred in the last 5 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

Fees paid to Simonton & Kutac, L.L.P., for audit services during 2008 were \$36,310 while tax related services totaled \$5,975. Simonton & Kutac, L.L.P. provided no non-audit or tax services to the association during 2008.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of Simonton & Kutac, L.L.P. dated February 27, 2009, and the report of management in this annual report to stockholders, are incorporated herein by reference.

CREDIT AND SERVICES TO YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS

As an agricultural lender in northeast Texas, the Association includes in its overall mission a duty to encourage and facilitate entry into agricultural operations. Individuals entering agriculture are diverse in their intent, some seeking farming or ranching as a primary vocation and income source; others seeking to supplement income from off-farm vocations; and others pursuing agriculture interest for lifestyle and/or recreational purposes.

The Association, having provided financing to agricultural interests in northeast Texas for many years, recognizes the importance of agriculture to the national and state economies, and has a keen desire to promote agriculture as both a vocation and income source in order to ensure the nation's steady and uninterrupted supply of food and fiber. Accordingly, the Association encourages entry into agriculture by providing reasonably priced financial products and services tailored to fit the needs of present-day operators. In addition to providing reasonably priced credit, the Association strives to ease entry for those new to agriculture by providing less stringent loan underwriting criteria in certain instances. Such efforts are intended to recognize individuals entering agriculture as a primary vocation.

The following represents the Association's status in 2008 as related to loans to Young, Beginning and Small (YBS), borrowers as compared to the 2002 USDA Ag Census demographic data:

Loan Portfolio YBS Attributes as of December 31, 2008

Category	Percent of Loan Portfolio	Census Data Percent of Territory
Young	19.95	20.0
Beginning	58.92	35.0
Small	80.97	88.6

A Young Farmer or Rancher is defined as a farmer, rancher or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.

A Beginning Farmer or Rancher is defined as a farmer, rancher, or producer or harvester of aquatic products who had 10 years or less of experience at farming, ranching or producing or harvesting aquatic products as of the date the loan was originally made.

A Small Farmer or Rancher is defined as a farmer, rancher or producer or harvester of aquatic products who normally generated less than \$250,000 in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

The Association also has quantitative goals, educational outreach and leadership training through its efforts with local youth programs such as 4-H, FFA, etc.

