Annual Report 2022

Part of the Farm Credit System

Letter to Stockholders

On behalf of the board of directors and staff of Legacy Ag Credit, ACA, we are pleased to present our 2022 Annual Report and financial results.

We are happy to report that the association recorded net income of $5.6 million in 2022, an increase of $1.4 million or 33% over the $4.2 million reported for 2021. Strong loan demand and the resulting loan growth of approximately 15% in 2021 and 6% in 2022 were the primary reason for the increase in net income.

Based on our 2022 earnings, capital position, and asset quality, the board of directors approved a record cash patronage of $3.23 million. When paid in 2023, this patronage will mark the 12th consecutive year the association has returned a cash patronage to its members. Total patronage payments over that time have now exceeded $24 million. The board and management remain committed to a strong patronage program that returns a portion of the association's annual profits to its approximately 1,200 members.

Total assets were $376.4 million on December 31, 2022, compared to $354.0 million on December 31, 2021, a $19.4 million or 5.5% increase. The increase primarily the result of loan growth in 2022. Net loans outstanding totaled $362.7 million on December 31, 2022, compared to $342.9 million on December 31, 2021, a $19.8 million or 5.8% increase. Member's equity was $67.8 million on December 31, 2022, compared to $64.9 million on December 31, 2021. On December 31, 2022, credit quality was acceptable on approximately 99.1% of the association's loans.

We are proud to announce that we enhanced our scholarship program in 2022. In addition to awarding seven scholarships totaling $20,000 to deserving high school students who are involved agriculture and committed to continuing their education, we also awarded four grants totaling $5,000 to local high school agricultural departments and 4-H groups. Legacy, like all Farm Credit associations, is committed to the future of agriculture and places a strong emphasis on meeting the needs of young, beginning, and small farmers in our area.

We are pleased to say that we completed the construction of a new office building in Canton, which opened in early 2023. The management team and the board are committed to meeting the needs of farmers, ranchers, and rural homeowners across the association's entire 10-county territory. As part of its most recent annual strategic planning, the board encouraged management to continue to seek out areas for additional lending office locations in our territory. In 2023, management is focusing on areas in the far eastern and central portions of our territory as areas where additional lending resources, including office locations, might be beneficial.

The board and management team are anticipating challenges ahead. Inflation, higher interest rates, economic uncertainty, and other factors could all have a significant impact on our ability to achieve our lending and financial goals in 2023. However, we remain optimistic about our long-term prospects for continued growth. Despite the negative factors, we continue to see growth in our territory as more people and families choose to move into our territory. As we mentioned in last year's annual report, we will continue to stay focused on the things we can control and work every day to improve the association for our membership. Legacy has a talented team of resolute directors and employees who consistently try to demonstrate our core values while fulfilling our mission of supporting agriculture and rural communities by providing access to reliable and consistent credit.

We would like to thank you for your ongoing support and encourage you to continue to promote the association by telling your friends and neighbors about Legacy Ag Credit. Finally, we invite each of you to attend our annual stockholder meeting on April 19, 2023, in our Sulphur Springs office.

Terry Milligan Chairman, board of directors	Derrell W. Chapman, CPA, chief executive officer

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REPORT OF MANAGEMENT

The consolidated financial statements of Legacy Ag Credit, ACA (association or Legacy) are prepared by management, which is responsible for their integrity and objectivity, including amounts that are based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on systems and controls provided by the Farm Credit Bank of Texas (FCBT or bank) and the association's own accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded, and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, who also conduct a review of internal controls for the purpose of determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements. The extent of such reviews and tests are performed in accordance with auditing standards generally accepted in the United States of America. The association is also examined by the Farm Credit Administration (FCA).

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

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

Derrell W. Chapman, CPA, Chief Executive Officer
March 9, 2023

Terry Milligan, Chairman, Board of Directors
March 9, 2023

Heather Johnson, CPA, Chief Financial Officer
March 9, 2023

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of directors Cheryl Scott, Terry Milligan, Danny Evans, and Clay Smith. The committee met 18 times in 2022, either in person or by teleconference. The committee oversees the scope of Legacy's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on Legacy's website. The committee approved the appointment of PricewaterhouseCoopers LLP (PwC) as the association's independent auditor for 2022.

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

In this context, the committee reviewed and discussed Legacy's audited consolidated financial statements for the year ended December 31, 2022 (audited consolidated financial statements) with management and PwC. The committee also reviews with PwC the matters required to be discussed by authoritative guidance "The Auditor's Communication With Those Charged With Governance," and both PwC and Legacy's internal auditors directly provide reports on significant matters to the committee.

The committee discussed with PwC its independence from Legacy. The committee also reviewed the nonaudit services provided by PwC and concluded that these services were not incompatible with maintaining the independent accountant's independence. The committee has discussed with management and PwC such other matters and received such assurances from them as the committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the committee recommended that the board of directors include the audited consolidated financial statements in Legacy's Annual Report to Stockholders for the year ended December 31, 2022.

Audit Committee Members

Cheryl Scott, CPA, chair
Terry Milligan
Danny Evans
Clay Smith

March 9, 2023

LEGACY AG CREDIT, ACA

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

	2022	2021	2020	2019	2018
Balance Sheet Data					
Assets					
Cash	**$ 127**	$ 105	$ 129	$ 126	$ 127
Loans	**363,933**	344,279	299,171	281,657	263,318
Less: allowance for loan losses	**1,243**	1,417	1,173	1,245	1,312
Net loans	**362,690**	342,862	297,998	280,412	262,006
Investment in and receivable from the Farm Credit Bank of Texas	**6,418**	5,370	4,735	4,562	4,442
Other property owned, net	**-**	-	-	-	49
Other assets	**7,126**	5,657	5,162	3,887	2,198
Total assets	**$ 376,361**	$ 353,994	$ 308,024	$ 288,987	$ 268,822
Liabilities					
Obligations with maturities of one year or less	**$ 2,215**	$ 2,131	$ 1,554	$ 1,717	$ 1,403
Obligations with maturities greater than one year	**306,350**	286,948	243,375	226,308	208,102
Total liabilities	**308,565**	289,079	244,929	228,025	209,505
Members' Equity					
Capital stock and participation certificates	**$ 1,193**	$ 1,172	$ 1,084	$ 1,079	$ 1,075
Unallocated retained earnings	**66,543**	63,742	62,004	59,857	58,183
Accumulated other comprehensive income (loss)	**60**	1	7	26	59
Total members' equity	**67,796**	64,915	63,095	60,962	59,317
Total liabilities and members' equity	**$ 376,361**	$ 353,994	$ 308,024	$ 288,987	$ 268,822
Statement of Income Data					
Net interest income	**$ 9,985**	$ 9,048	$ 8,153	$ 8,108	$ 7,862
(Provision for loan losses) loan loss reversal	**100**	(139)	85	61	165
Income from the Farm Credit Bank of Texas	**2,178**	1,872	1,409	1,129	980
Other noninterest income	**575**	827	487	286	381
Noninterest expense	**(7,192)**	(7,400)	(5,621)	(5,610)	(5,519)
Net income (loss)	**$ 5,646**	$ 4,208	$ 4,513	$ 3,974	$ 3,869
Key Financial Ratios for the Year					
Return on average assets	**1.5%**	1.3%	1.5%	1.4%	1.5%
Return on average members' equity	**8.7%**	6.7%	7.4%	6.7%	6.7%
Net interest income as a percentage of average earning assets	**2.8%**	2.9%	2.8%	2.9%	3.0%
Net charge-offs (recoveries) as a percentage of average loans	**0.021%**	-.033%	-.005%	.002%	-.070%

LEGACY AG CREDIT, ACA

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

	2022	2021	2020	2019	2018
Key Financial Ratios at Year End *					
Members' equity as a percentage of total assets	**18.0%**	18.3%	20.5%	21.1%	22.1%
Debt as a percentage of members' equity	**455.1%**	445.3%	388.2%	374.0%	353.2%
Allowance for loan losses as a percentage of loans	**0.3%**	.4%	.4%	.4%	.5%
Common equity tier 1 ratio	**18.1%**	19.0%	20.6%	21.4%	21.8%
Tier 1 capital ratio	**18.1%**	19.0%	20.6%	21.4%	21.8%
Total capital ratio	**18.5%**	19.5%	21.1%	21.9%	22.3%
Permanent capital ratio	**18.1%**	19.1%	20.7%	21.5%	21.9%
Tier 1 leverage ratio	**16.3%**	17.2%	18.9%	19.7%	20.5%
UREE leverage ratio	**16.0%**	18.2%	20.0%	20.8%	21.4%
Total surplus ratio	**n/a**	n/a	n/a	n/a	n/a
Core surplus ratio	**n/a**	n/a	n/a	n/a	n/a
Net Income Distribution					
Cash patronage paid	**$ 2,846**	$ 2,470	$ 2,400	$ 2,300	$ 2,100

*Effective January 1, 2017, the new regulatory capital ratios were implemented by the association. The association's ratios remained well above the regulatory minimums, including the conservation and leverage buffers at December 31, 2022. For more information, see Note 9 in the accompanying financial statements, "Members Equity," included in this annual report.

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

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Legacy, including its wholly owned subsidiaries, Legacy, PCA and Legacy Land Bank, FLCA, for the years ended December 31, 2022, 2021 and 2020, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying financial statements were prepared under the oversight of the association's audit committee.

Forward-Looking Information:

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will" or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international and farm-related business sectors;
- weather-related, disease-related and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the Farm Credit System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government and government-sponsored enterprises; and
- actions taken by the Federal Reserve System in implementing monetary policy.

Significant Events:

Throughout the COVID-19 pandemic, Legacy has continued to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. Demand for retail loans has been historically high, leading to elevated growth in Legacy's territory for most of 2022. However, loan growth began to moderate in the latter part of 2022 due to the rising interest rate environment. Macroeconomic uncertainty, as well as ongoing supply chain disruptions and fluctuating commodity markets, are likely to lead to volatility in credit quality in future periods.

Agricultural producers and processors were negatively affected by several factors in 2022, including volatile commodity prices, elevated production costs, geopolitical conflicts, economic uncertainty, and weather-related challenges. However, the association's loan portfolio remained resilient and well-supported by industry diversification and conservative advance rates. Additionally, a high percentage of Legacy borrowers primarily rely on non-farm sources of income to repay their loans.

Patronage Refunds Received From FCBT:

In December 2022, the association received a direct loan patronage of $1,960,827 from the bank, representing 65 basis points on the average daily balance of the association's direct loan with the bank. During 2022, the association received $121,896 in patronage payments from the bank, based on the association's stock investment in the bank. Also, the association received a capital markets patronage of $95,520 from the bank, representing 100 basis points on the association's average balance of participations in the bank's patronage pool program.

Patronage Refunds by Association:

In January 2023, Legacy declared a $3,231,241 patronage for all members who had outstanding accrual loans with the Association during fiscal year 2022, which will be paid in March 2023. Payments made in prior years totaled $2,846,000 and $2,470,000 for fiscal year 2021 and 2020 earnings, respectively.

The board of directors and management remain committed to its patronage program while maintaining the financial integrity of the association and offering competitive loan products that meet the financial needs of its members and prospective members.

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 and fixed interest rates. Typical maturities range from one year for operating loans and up to 30 years for real estate secured mortgage loans. Payments on loans may be monthly, quarterly, annually, or other frequencies depending on cash flow of the borrower.

The composition of the association's loan portfolio, including principal less funds held, which totaled $363,932,965, $344,279,818 and $299,170,905 as of December 31, 2022, 2021 and 2020, respectively, is described more fully in detailed tables in Note 3 to the consolidated financial statements, "Loans and Allowance for Loan Losses," included in this annual report.

Purchase and Sales of Loans:

During 2022, 2021 and 2020, the association was participating in loans with other lenders. As of December 31, 2022, 2021 and 2020, these participations totaled $55,188,872, $48,174,046, and $47,508,601, or 15.16%, 14.0% and 15.9% of loans, respectively. The association has also sold participations of $9,751,548, $10,105,909, and $367,270 as of December 31, 2022, 2021 and 2020, respectively.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned, net.

The following table illustrates the association's components and trends of high-risk assets serviced for the prior three years as of December 31:

	2022		2021		2020	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual	**$ 3,032,482**	**78.5%**	$ 2,681,965	74.9%	$ 2,366,324	49.2%
Formally restructured	**833,006**	**21.5%**	900,039	25.1%	2,443,488	50.8%
Total	**$ 3,865,488**	**100.0%**	$ 3,582,004	100.0%	$ 4,809,812	100.0%

At December 31, 2022, 2021 and 2020, loans that were considered impaired were $3,865,488, $3,582,004, and $4,809,812, representing 1.1%, 1.0% and 1.6% of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

The association held no properties classified as other property owned at December 31, 2022, 2021, or 2020.

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:

	2022	2021	2020
Allowance for loan losses	**$ 1,243,348**	$ 1,417,406	$ 1,173,442
Allowance for loan losses to total loans	**0.3%**	**0.4%**	**0.4%**
Allowance for loan losses to nonaccrual loans	**41.0%**	**52.8%**	**49.6%**
Allowance for loan losses to impaired loans	**32.2%**	**39.6%**	**24.4%**
Net charge-offs to average loans	**0.021%**	-0.033%	-0.005%

The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and economic conditions, and prior loan loss experience. Management may consider other qualitative factors in determining and supporting the level of allowance for loan losses including but not limited to: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects, borrower repayment capacity, depth of lender staff, and/or past trends, and weather-related influences. As a result of the COVID-19 virus in 2021 and the uncertainty of its impact on association borrowers, the association included a qualitative component within the allowance for possible COVID-19 related loan losses.

Based upon ongoing risk assessment and the allowance for loan loss procedures outlined above, the allowance for loan loss is considered by management adequate to compensate for inherent losses in the loan portfolio. Management's process for the evaluation of allowance for loan losses includes a portfolio analysis and historical loss experience.

Results of Operations:

The association's net income for the year ended December 31, 2022, was $5,646,471 as compared to $4,207,965 for the year ended December 31, 2021, an increase of $1,438,506, or 34.2%. The association's net income for the year ended December 31, 2021 was $4,207,965 compared to $4,512,969 for the year ended December 31, 2020, a decrease of $305,004 or 6.8%.

Net interest income totaled $9,985,399 in 2022 compared to $9,048,200 in 2021, an increase of $937,199, or 10.4%. The $9,048,200 net interest income in 2021 compared to $8,152,981 in 2020 was $895,219 or 11.0% greater than the prior year. 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:

	2022		2021		2020	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 358,843,323**	**$ 17,230,277**	$ 317,990,286	$ 14,503,745	$ 287,046,470	$ 14,025,794
Interest-bearing liabilities	**302,747,571**	**7,244,878**	263,080,111	5,455,545	232,772,771	5,872,813
Impact of capital	**$ 56,095,752**		$ 54,910,175		$ 54,273,699	
Net interest income		**$ 9,985,399**		$ 9,048,200		$ 8,152,981

	2022 Average Yield	2021 Average Yield	2020 Average Yield
Yield on loans	**4.80%**	4.56%	4.89%
Cost of interest-bearing liabilities	**2.39%**	2.07%	2.52%
Interest rate spread	**2.41%**	2.49%	2.36%

	2022 vs. 2021			2021 vs. 2020		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income - loans	**$ 1,863,348**	**$ 863,184**	**$ 2,726,532**	$ 1,511,977	$ (1,034,026)	$ 477,951
Interest expense	**822,584**	**966,749**	**1,789,333**	764,654	(1,181,922)	(417,268)
Net interest income	**$ 1,040,764**	**$ (103,565)**	**$ 937,199**	$ 747,323	$ 147,896	$ 895,219

Interest income for 2022 increased by $2,726,532, or 18.8%, compared to 2021, primarily due to an increase in loan volume. Interest expense for 2022 increased by $1,789,333, or 32.8%, compared to 2021 due to an increase in cost of interest-bearing liabilities and an increase in note payable. The interest rate spread decreased by 8 basis points to 2.41% in 2022 from 2.49% in 2021, due to an increase in average yields on loans which was offset by an increase in cost of interest-bearing liabilities. The interest rate spread increased by 13 basis points to 2.49% in 2021 from 2.36% in 2020, due to the decline in the cost of interest-bearing liabilities, which was offset by a decline in yields on loans.

Noninterest income for 2022 increased by $53,817, or 2.0%, compared to 2021, due primarily to an increase in patronage income from the bank. Noninterest income for 2021 increased by $803,488, or 42.4%, compared to 2020, due primarily to an increase in loan fees, an increase in patronage income from the bank, an increase in in-house appraisal fees, and a gain on sale of Legacy fleet vehicles.

Provisions for loan losses decreased by $239,184, or 171.8%, compared to 2021, due primarily to payoffs of two impaired loans carrying specific reserves.

Operating expenses consist primarily of salaries, employee benefits and purchased services. Expenses for purchased services may include administrative services, marketing, information systems, accounting, and loan processing, among others. Operating expenses decreased by $208,306, or 2.8%, in 2022 compared to 2021 due to decreases in salaries, benefits, and advertising, offset by increased travel for training and conferences, and an increase of $148,000 in premiums to the Insurance Fund as premium rates jumped from 16 basis points in 2021 to 20 basis points in 2022.

For the year ended December 31, 2022, the association's return on average assets was 1.5%, as compared to 1.3% and 1.5% for the years ended December 31, 2021 and 2020, respectively. For the year ended December 31, 2022, the association's return on average members' equity was 8.7%, as compared to 6.7% and 7.4% for the years ended December 31, 2021 and 2020, respectively.

Because the association depends on the bank for funding, any significant positive or negative factors affecting the operations of the bank may have an effect on the operations of the association.

Liquidity and Funding Sources:

The interest rate risk inherent in the association's loan portfolio is substantially mitigated through the funding relationship with the bank. The bank manages interest rate risk through its direct loan pricing and asset/liability management process.

The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of $305,607,123, $286,451,817 and $242,927,735 as of December 31, 2022, 2021 and 2020, respectively, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 2.39%, 2.07% and 2.52% at December 31, 2022, 2021 and 2020, respectively. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by a general financing agreement. The increase in note payable to the bank and related accrued interest payable since December 31, 2021, is due to the increase in loan volume. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were $57,358,943, $56,498,722 and $54,973,786 at December 31, 2022, 2021 and 2020, respectively. The maximum amount the association may borrow from the bank as of December 31, 2022, was $360,947,366 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2023, unless sooner terminated by the bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the bank 120 days' prior written notice.

The liquidity policy of the association is to manage cash balances, to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued during 2023. 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 remains well-capitalized with total members' equity of $67,795,984, $64,915,507 and $63,095,640 at December 31, 2022, 2021 and 2020, 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% of risk-weighted assets as defined by the FCA. The permanent capital ratio measures available at-risk capital relative to risk-weighted 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, 2022, 2021 and 2020 was 18.1%, 19.1% and 20.7%, respectively.

In 2022, 2021 and 2020, the association paid patronage of $2,845,692, $2,469,972, and $2,365,866, respectively. See Note 9 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

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

Regulatory Matters:

At December 31, 2022, the association was not under written agreements with the Farm Credit Administration.

On January 5, 2021, the FCA posted an informational memorandum providing guidance to the Farm Credit System on managing challenges associated with COVID-19. The informational memorandum provided supplements on flood insurance requirements, consumer financial protection, and electronic delivery of borrower rights notices. On January 12, 2021, the FCA posted a supplement to its January 5, 2021, informational memorandum, which provided updated guidance to Farm Credit System institutions on issues related to COVID-19. The supplement covers regulatory capital requirements for Paycheck Protection Program loans. On January 28, 2021, the FCA posted a supplement to its January 5, 2021, informational memorandum, which provided updated guidance to Farm Credit System institutions on issues related to COVID-19. The supplement discusses matters related to association annual meetings and elections during the 2021 calendar year.

On February 5, 2021, the FCA posted an informational memorandum on maintaining and using stockholder lists. The informational memorandum provides institutions with guidance on maintaining the lists and using them to establish who should receive voting and financial information.

On June 30, 2021, the FCA posted an advance notice of proposed rulemaking to seek public comments on how to amend or restructure bank liquidity regulations. The FCA is considering whether to amend the existing liquidity regulatory framework so banks can better withstand crises that adversely impact liquidity. The comment period ended on November 27, 2021.

On August 26, 2021, the FCA published a proposed rule in the Federal Register on defining and establishing risk-weightings for high-volatility commercial real estate (HVCRE) exposures. The comment period ended on January 24, 2022.

On September 9, 2021, the FCA adopted a final rule on the tier 1/tier 2 capital framework. The rule clarifies the regulations, simplifies certain requirements, and changes the lending and leasing limit base calculation to be computed using total capital instead of permanent capital. It also codifies guidance provided in FCA Bookletter 068. On October 1, 2021, the FCA published the final rule on the tier 1/tier 2 capital framework in the Federal Register. The final rule became effective on January 1, 2022.

On December 8, 2021, the FCA posted an informational memorandum on managing the LIBOR transition. The informational memorandum provides institutions with guidance on the transition away from LIBOR, clarifies the meaning of new LIBOR contracts, and provides guidance on using alternative reference rates.

Relationship With the Bank:

The association’s statutory obligation to borrow only from the bank is discussed in Note 8 to the consolidated financial statements, “Note Payable to the Bank,” included in this annual report.

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

The bank’s role in mitigating the association’s exposure to interest rate risk is described in the section “Liquidity and Funding Sources” of Management’s Discussion and Analysis and in Note 8 to the consolidated financial statements, “Note Payable to the Bank,” included in this annual report.

The bank provides computer systems to support the critical operations of all district associations. In addition, each association has operating systems and facility-based systems that are not supported by the bank. As disclosed in Note 12 to the consolidated financial statements, “Related Party Transactions,” included in this annual report, the bank provides many services that the association can utilize, such as administrative, marketing, information systems and accounting services. Additionally, the bank bills district expenses to the associations, such as the Farm Credit System Insurance Corporation insurance premiums.

Summary:

Regardless of the state of the agricultural economy, your association’s board of directors and management, as well as the board of directors and management of the bank, have been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this association.

pwc

Report of Independent Auditors

To the Board of Directors of Legacy Ag Credit, ACA

Opinion

We have audited the accompanying consolidated financial statements of Legacy Ag Credit, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2022, 2021 and 2020, and the related consolidated statements of comprehensive income, changes in members' equity and cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2022, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the information included in the 2022 Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

PricewaterhouseCoopers LLP

Austin, Texas
March 9, 2023

LEGACY AG CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	December 31,		
	2022	2021	2020
Assets			
Cash	**$ 127,481**	$ 104,802	$ 129,112
Loans	**363,932,965**	344,279,818	299,170,905
Less: allowance for loan losses	**1,243,348**	1,417,406	1,173,442
Net loans	**362,689,617**	**342,862,412**	**297,997,463**
Accrued interest receivable	**1,808,462**	1,188,891	1,262,126
Investment in and receivable from the Farm Credit Bank of Texas:			
Capital stock	**6,016,770**	5,192,520	4,627,995
Other	**401,341**	177,250	106,787
Premises and equipment	**5,076,354**	4,276,339	3,738,864
Other assets	**240,754**	192,012	162,045
Total assets	**$ 376,360,779**	$ 353,994,226	$ 308,024,392
Liabilities			
Note payable to the Farm Credit Bank of Texas	**$ 305,607,123**	$ 286,451,817	$ 242,927,735
Advance conditional payments	**-**	1,433	5,782
Accrued interest payable	**742,186**	495,920	446,790
Drafts outstanding	**454,833**	178,325	118,372
Other liabilities	**1,760,653**	1,951,224	1,430,074
Total liabilities	**308,564,795**	289,078,719	244,928,753
Members' Equity			
Capital stock and participation certificates	**1,192,520**	1,171,860	1,084,410
Unallocated retained earnings	**66,543,014**	63,742,235	62,004,242
Accumulated other comprehensive income (loss)	**60,450**	1,412	6,987
Total members' equity	**67,795,984**	64,915,507	63,095,639
Total liabilities and members' equity	**$ 376,360,779**	$ 353,994,226	$ 308,024,392

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

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2022	2021	2020
Interest Income			
Loans	**$ 17,230,277**	$ 14,503,745	$ 14,025,794
Interest Expense			
Note payable to the Farm Credit Bank of Texas	**7,244,878**	5,455,545	5,872,813
Net interest income	**9,985,399**	9,048,200	8,152,981
Provision for loan losses (loan loss reversal)	**(99,985)**	139,199	(85,329)
Net interest income after provision for losses (loan loss reversal)	**10,085,384**	8,909,001	8,238,310
Noninterest Income			
Income from the Farm Credit Bank of Texas:			
Patronage income	**2,178,243**	1,871,647	1,409,361
Loan fees	**426,174**	592,960	362,037
Refunds from Farm Credit System Insurance Corporation			44,048
Financially related services income	**164**	195	185
(Loss) gain on sale of premises and equipment, net	**(5,220)**	94,693	(1,773)
Other noninterest income	**153,454**	139,503	81,652
Total noninterest income	**2,752,815**	2,698,998	1,895,510
Noninterest Expenses			
Salaries and employee benefits	**4,374,319**	4,833,427	3,480,528
Directors' expense	**228,093**	142,845	143,719
Purchased services	**497,234**	488,291	482,514
Travel	**245,589**	210,949	203,117
Occupancy and equipment	**570,196**	511,380	382,385
Communications	**90,936**	109,500	106,530
Advertising	**143,814**	231,262	108,301
Public and member relations	**214,556**	200,591	173,221
Supervisory and exam expense	**124,984**	112,219	107,546
Insurance Fund premiums	**471,067**	323,039	245,389
Other components of net periodic postretirement benefit cost	**7,082**	6,146	7,458
Other noninterest expense	**223,858**	230,385	180,143
Total noninterest expenses	**7,191,728**	7,400,034	5,620,851
NET INCOME	**5,646,471**	4,207,965	4,512,969
Other comprehensive income:			
Change in postretirement benefit plans	**59,038**	(5,575)	(19,097)
COMPREHENSIVE INCOME	**$ 5,705,509**	$ 4,202,390	$ 4,493,872

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

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2019	$ 1,078,665	$ 59,857,139	$ 26,084	$ 60,961,888
Comprehensive income		4,512,969	(19,097)	4,493,872
Capital stock/participation certificates and allocated retained earnings issued	188,855			188,855
Capital stock/participation certificates and allocated retained earnings retired	(183,110)			(183,110)
Patronage paid		(2,365,866)		(2,365,866)
Balance at December 31, 2020	1,084,410	62,004,242	6,987	63,095,639
Comprehensive income	-	4,207,965	(5,575)	4,202,390
Capital stock/participation certificates issued	280,130			280,130
Capital stock/participation certificates and allocated retained earnings retired	(192,680)			(192,680)
Patronage paid		(2,469,972)		(2,469,972)
Balance at December 31, 2021	1,171,860	63,742,235	1,412	64,915,507
Comprehensive income		5,646,471	59,038	5,705,509
Preferred stock issued				
Capital stock/participation certificates issued	182,590			182,590
Preferred stock retired				
Capital stock/participation certificates and allocated retained earnings retired	(161,930)			(161,930)
Patronage paid		(2,845,692)		(2,845,692)
Balance at December 31, 2022	**$ 1,192,520**	**$ 66,543,014**	**$ 60,450**	**$ 67,795,984**

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,		
	2022	2021	2020
Cash flows from operating activities:			
Net income	**$ 5,646,471**	$ 4,207,965	$ 4,512,969
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses (loan loss reversal)	**(99,985)**	139,199	(85,329)
Gain on sale of other property owned, net			
Depreciation and amortization	**361,557**	370,473	275,925
Loss (gain) on sale of premises and equipment, net	**5,220**	(94,692)	1,773
(Increase) decrease in accrued interest receivable	**(619,571)**	73,235	258,745
(Increase) decrease in other receivables from the Farm Credit Bank	**(224,091)**	(70,463)	141,911
(Increase) decrease in other assets	**(48,742)**	(29,967)	9,408
Increase (decrease) in accrued interest payable	**246,266**	49,130	(129,038)
(Decrease) increase in other liabilities	**(131,533)**	515,575	(19,206)
Net cash provided by operating activities	**5,135,592**	5,160,455	4,967,158
Cash flows from investing activities:			
Increase in loans, net	**(19,841,060)**	(45,239,126)	(17,606,976)
Cash recoveries of loans previously charged off	**3,600**	114,670	13,438
Proceeds from purchase of investment in the Farm Credit Bank of Texas	**(824,250)**	(564,525)	(314,865)
Purchases of premises and equipment	**(1,056,802)**	(873,808)	(1,737,710)
Proceeds from sales of premises and equipment	**250**	180,860	9,779
Net cash used in investing activities	**(21,718,262)**	(46,381,929)	(19,636,334)

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,		
	2022	2021	2020
Cash flows from financing activities:			
Net draws on note payable to the Farm Credit Bank of Texas	**19,155,306**	43,524,082	17,195,068
Increase (decrease) in drafts outstanding	**276,508**	59,953	(166,750)
(Decrease) increase in advance conditional payments	**(1,433)**	(4,349)	4,092
Issuance of capital stock and participation certificates	**182,590**	280,130	188,855
Retirement of capital stock and participation certificates	**(161,930)**	(192,680)	(183,110)
Cash patronage paid	**(2,845,692)**	(2,469,972)	(2,365,866)
Net cash provided by financing activities	**16,605,349**	41,197,164	14,672,289
Net increase (decrease) in cash	**22,679**	(24,310)	3,113
Cash at the beginning of the year	**104,802**	129,112	125,999
Cash at the end of the year	**$ 127,481**	$ 104,802	$ 129,112
Supplemental schedule of noncash investing and financing activities:			
Loans charged off	**77,673**	9,906	-
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	**$ 6,998,612**	$ 5,406,415	$ 6,001,851

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). At December 31, 2022, the System consisted of three Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

The Farm Credit Bank of Texas (bank) and its related associations are collectively referred to as the "district." The bank provides funding to all associations within the district and is responsible for supervising certain activities of the district associations. At December 31, 2022, the district consisted of the bank, one FLCA and 13 ACA parent companies, which have two wholly owned subsidiaries, an FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of System associations to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices.

The Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected borrower capital at par or stated value and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the FCSIC of providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank has been required to pay premiums, which may be passed on to the association, into the Insurance Fund, based on its annual average adjusted outstanding insured debt until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0% of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or other such percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. Under the Farm Credit Act, as amended, the FCSIC may return excess funds above the secure base amount to System banks, which may be passed on to the association.

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

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

The association also serves as an intermediary in offering credit life insurance.

The association's financial condition may be affected by factors that affect the bank. The financial condition and results of operations of the bank may materially affect stockholders' investments in the association. Upon request, stockholders of the association will be provided with the Farm Credit Bank of Texas Annual Report to Stockholders.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation and Consolidation

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

Use of Estimates

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

The accounting and reporting policies of the association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results could differ from those estimates. The consolidated financial statements include the accounts of Legacy, PCA and Legacy Land Bank, FLCA. All significant intercompany transactions have been eliminated in consolidation.

A. Recently Issued or Adopted Accounting Pronouncements:

The entity adopted the FASB guidance titled "Measurement of Credit Losses on Financial Instruments" on January 1, 2023. This guidance established a single allowance framework for all financial assets measured at amortized cost and certain off-balance sheet credit exposures. The guidance requires management to consider in its estimate of allowance for credit losses (ACL) relevant historical events, current conditions and reasonable and supportable forecasts that affect the collectability of the assets. Prior to the adoption, the allowance for loan losses represented management's estimate of the probable credit losses inherent in its loan portfolio and certain unfunded commitments. In addition, the guidance amends existing impairment guidance for held-to-maturity and available-for-sale investments to incorporate an allowance, which will allow for the reversal of credit impairments in the event that the credit of an issuer improves. The adoption of this guidance was not material to the association's allowance for credit losses and retained earnings.

In March 2022, the Financial Accounting Standards Board (FASB) issued an update titled "Financial Instruments - Credit Losses: Troubled Debt Restructurings and Vintage Disclosures." The guidance eliminates the accounting guidance for troubled debt restructurings (TDRs) by creditors while enhancing disclosure requirements for certain loan refinancings and restructurings when a borrower is experiencing financial difficulty. The creditor will have to apply the guidance to determine whether a modification results in a new loan or a continuation of an existing loan. In addition to the TDR guidance, the update requires public business entities to disclose current period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of the credit losses standard. These amendments were effective for the entity upon adoption of the measurement of credit losses on financial instruments standard on January 1, 2023.

In March 2020, the FASB issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting (Reference Rate Reform)." The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform to ease the potential burden related to reference rate reform (transition away from the London Inter-Bank Offered Rate (LIBOR)). The optional amendments are effective as of March 12, 2020 through December 31, 2022.

In January 2021, the FASB issued an update to Reference Rate Reform whereby certain derivative instruments may be modified to change the rate used for margining, discounting, or contract price alignment. An entity may elect to apply the new amendments on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the update, up to the date that financial statements are available to be issued. These amendments do not apply to contract modifications made or new hedging relationships entered into after December 31, 2022, and existing hedging relationships evaluated for effectiveness in periods after December 31, 2022.

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

C. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 40 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and net deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Authoritative accounting guidance requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest and penalty interest incurred as a result of past-due status, is collected or otherwise discharged in full.

A restructured loan constitutes a troubled debt restructuring (TDR) if for economic or legal reasons related to the debtor's financial difficulties the association grants a concession to the debtor that it would not otherwise consider. A concession is generally granted in order to minimize the association's economic loss and avoid foreclosure. Concessions vary by program and are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan restructured in a troubled debt restructuring is an impaired loan.

Impaired 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), circumstances indicate that collection of principal and/or interest is in doubt or legal action, including foreclosure or other forms of collateral conveyance, has been initiated to collect the outstanding principal and interest. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments is recognized as current interest income. Nonaccrual loans may be returned to accrual status when principal and interest are current, the borrower has demonstrated payment performance, and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

The bank and related associations use a two-dimensional loan rating model based on an internally generated combined system risk-rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk-rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned (OAEM) and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

The credit risk-rating methodology is a key component of the association's allowance for loan losses evaluation and is generally incorporated into its loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including loan portfolio composition, collateral value, portfolio quality, current production conditions and economic conditions, and prior loan loss experience. Management may consider other qualitative factors in determining and supporting the level of allowances for loan losses including but not limited to: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects, borrower repayment capacity, depth of lender staff, and/or past trends, and weather-related influences. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time.

The allowance for loan losses includes components for loans individually evaluated for impairment and loans collectively evaluated for impairment. Generally, for loans individually evaluated the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, less estimated costs to sell, if the loan is collateral-dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model.

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

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

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

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

E. Other Property Owned, Net: Other property owned, net, consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure, and is recorded at fair value less estimated selling costs upon acquisition and is included in other assets in the consolidated balance sheet. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains (losses) on other property owned in the statements of comprehensive income.

F. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized. Long-lived assets are reviewed for impairment whenever events or circumstances indicate the carrying amount of an asset group may not be recoverable.

G. Advance Conditional Payments: The association is authorized under the Act to accept advance payments from borrowers. To the extent that the borrower's access to such funds is restricted, the advance conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheet. Advance conditional payments are not insured. Interest is generally paid by the association on such accounts at rates established by the board of directors.

H. Employee Benefit Plans: Employees of the association participate in either the district defined benefit retirement plan (DB plan) or the defined contribution plan (DC plan). All eligible employees may participate in the Farm Credit Benefits Alliance 401(k) Plan. The DB plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB plan is noncontributory and provides benefits based on salary and years of service. The "projected unit credit" actuarial method is used for financial reporting and funding purposes for the DB plan.

Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC plan direct the placement of their employers' contributions, 5.0% of eligible pay for the year ended December 31, 2022, made on their behalf into various investment alternatives.

The structure of the district's DB plan is characterized as multiemployer, since neither the assets, liabilities nor costs of the plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. The association recognized pension costs for the DC plan of $183,338, $164,127, and $142,626 for the years ended December 31, 2022, 2021 and 2020 respectively. For the DB plan, the association recognized pension costs of $25,160, $38,625 and $0 for the years ended December 31, 2022, 2021 and 2020, respectively.

The association also participates in the Farm Credit Benefits Alliance 401(k) Plan, which requires the associations to match 100% of employee contributions up to 3.0% of eligible earnings and to match 50% of employee contributions for the next 2.0% of employee contributions, up to a maximum employer contribution of 4.0% of eligible earnings. Association 401(k) plan costs are expensed as incurred. The association's contributions to the 401(k) plan were $138,404, $126,729 and $110,697 for the years ended December 31, 2022, 2021 and 2020, respectively.

In addition to pension benefits, the association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities on the consolidated balance sheet. For further information about the association's employee benefit plans, see Note 11, "Employee Benefit Plans."

I. Income Taxes: The ACA holding company conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are operated through the wholly owned FLCA subsidiary, which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through the wholly owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income tax. The association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. Deferred taxes are provided on the association's taxable income on the basis of a proportionate share of the tax effect of temporary differences not allocated in patronage form. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50% probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the association's expected patronage program, which reduces taxable earnings.

J. Patronage Refunds From the Farm Credit Bank of Texas: The association records patronage refunds from the bank on an accrual basis.

K. Fair Value Measurement: The FASB guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. Also included in Level 1 are assets held in trust funds, which relate to deferred compensation and the supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Pension plan assets that are invested in equity securities, including mutual funds and fixed-income securities that are actively traded, are also included in Level 1.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate debt securities, and derivative contracts. Pension plan assets that are derived from observable inputs, including corporate bonds and mortgage-backed securities, are reported in Level 2.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities are considered Level 3. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, asset-backed securities, highly structured or long-term derivative contracts, certain loans and other property owned. Pension plan assets such as certain mortgage-backed securities that are supported by little or no market data in determining the fair value are included in Level 3.

The fair value disclosures are presented in Note 13, "Fair Value Measurements."

L. Off-balance-sheet credit exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

Loan Type	2022 Amount	2022 %	2021 Amount	2021 %	2020 Amount	2020 %
Real estate mortgage	**$ 308,324,835**	**84.8%**	$ 284,813,145	82.8%	$ 242,553,449	81.1%
Agribusiness:						
Processing and marketing	**16,158,542**	**4.4%**	17,597,455	5.1%	17,704,087	5.9%
Loans to cooperatives	**4,584,393**	**1.3%**	3,172,038	0.9%	3,342,306	1.1%
Farm-related business	**2,275,713**	**0.6%**	3,122,997	0.9%	3,055,217	1.0%
Production and intermediate-term	**10,867,818**	**3.0%**	13,434,786	3.9%	11,487,905	3.8%
Rural residential real estate	**9,261,897**	**2.5%**	7,366,411	2.1%	4,389,411	1.5%
Communication	**7,224,417**	**2.0%**	7,107,097	2.1%	8,899,085	3.0%
Energy	**3,236,720**	**0.9%**	4,866,302	1.4%	4,700,512	1.6%
Water and wastewater	**1,998,630**	**0.5%**	2,799,587	0.8%	3,038,933	1.0%
Total	**$ 363,932,965**	**100.0%**	$ 344,279,818	100.0%	$ 299,170,905	100.0%

The association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding participations purchased and sold as of December 31, 2022:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 15,813,897	$ 9,751,548	$ -	$ -	$ 15,813,897	$ 9,751,548
Production and intermediate-term	3,896,559	-	-	-	3,896,559	-
Agribusiness	23,018,648	-	-	-	23,018,648	-
Communication	7,224,417	-	-	-	7,224,417	-
Energy	3,236,720	-	-	-	3,236,720	-
Water and wastewater	1,998,630	-	-	-	1,998,630	-
Total	$ 55,188,872	$ 9,751,548	$ -	$ -	$ 55,188,872	$ 9,751,548

Geographic Distribution

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

County	2022	2021	2020
Hopkins	10.3%	11.3%	12.9%
Van Zandt	12.5%	11.7%	11.2%
Wood	8.4%	9.6%	11.1%
Kaufman	8.6%	7.8%	6.9%
Upshur	6.2%	7.0%	6.3%
Harrison	4.2%	4.0%	4.2%
Franklin	3.8%	3.4%	3.6%
Rains	2.0%	2.4%	2.5%
Marion	1.7%	1.7%	1.7%
Gregg	0.6%	0.5%	0.6%
Other	41.7%	40.6%	39.0%
Totals	**100.0%**	100.0%	**100.0%**

The association's concentration of credit risk in various agricultural commodities is shown in the following table. Though 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.

	2022		2021		2020	
Operation/Commodity	**Amount**	**%**	Amount	%	Amount	%
Livestock, except dairy and poultry	**$ 104,962,318**	**28.8%**	$ 97,435,380	28.3%	$ 78,160,257	26.1%
Poultry and eggs	**91,877,843**	**25.2%**	91,500,864	26.6%	83,646,388	28.0%
Field crops except cash grains	**52,291,307**	**14.4%**	49,800,257	14.4%	41,767,918	14.0%
Hunting, trapping and game propagation	**33,154,172**	**9.1%**	24,786,423	7.2%	16,081,680	5.4%
Timber	**21,369,171**	**5.9%**	21,927,503	6.4%	20,592,479	6.8%
Rural home loans	**9,839,793**	**2.7%**	8,019,596	2.3%	5,074,374	1.7%
Communication	**7,224,417**	**2.0%**	7,107,097	2.1%	8,899,085	3.0%
Animal specialties	**7,129,179**	**2.0%**	5,394,243	1.6%	3,839,260	1.3%
Food and kindred products	**6,373,599**	**1.8%**	5,732,542	1.7%	9,260,291	3.1%
Paper and allied products	**5,194,449**	**1.4%**	4,394,367	1.3%	4,786,480	1.6%
Fruit and tree nuts	**5,086,259**	**1.4%**	4,170,048	1.2%	2,580,491	0.8%
Wholesale trade - nondurable goods	**4,902,280**	**1.3%**	7,887,250	2.3%	7,751,088	2.6%
Electric services	**3,236,720**	**0.9%**	4,866,302	1.4%	4,700,512	1.6%
Chemical and allied products	**2,275,713**	**0.6%**	3,122,997	0.9%	3,055,217	1.0%
Water Supply	**1,998,630**	**0.5%**	1,997,785	0.6%	1,996,938	0.7%
Dairy farms	**1,667,303**	**0.5%**	2,025,163	0.6%	2,263,730	0.7%
Agricultural services	**1,247,395**	**0.3%**	1,321,450	0.4%	1,391,788	0.5%
Metal Cans	**1,113,971**	**0.3%**	419,361	0.1%	1,184,229	0.4%
General farms, primarily crops	**806,000**	**0.2%**	841,706	0.2%	560,018	0.2%
Other	**752,408**	**0.2%**	-	0.0%	-	0.0%
Building materials, hardware and garden supplies	**597,210**	**0.2%**	658,966	0.2%	627,226	0.2%
General farms, primarily livestock	**247,358**	**0.1%**	259,572	0.1%	272,297	0.1%
Farm and garden machinery equipment	**236,755**	**0.1%**	264,450	0.1%	-	0.0%
Horticultural specialties	**221,844**	**0.1%**	129,431	0.0%	140,344	0.0%
Vegetables and melons	**63,548**	**0.0%**	102,395	0.0%	236,945	0.1%
Real estate	**63,321**	**0.0%**	66,970	0.0%	254,707	0.1%
Forestry services	**-**	**0.0%**	47,700	0.0%	-	0.0%
Health services	**-**	**0.0%**	-	0.0%	47,163	0.0%
Total	**$ 363,932,964**	**100.0%**	$ 344,279,818	100.0%	$ 299,170,905	100.0%

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

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

The following table presents information relating to impaired loans:

	December, 31		
	2022	2021	2020
Nonaccrual Loans:			
Current as to principal and interest	**$ 1,631,185**	$ 698,689	$ 1,807,998
Past Due	**1,401,296**	1,983,276	558,326
Total nonaccrual loans	**3,032,481**	2,681,965	2,366,324
Impaired Accrual Loans:			
Restructured accrual loans	**833,006**	900,039	2,443,488
Total impaired loans	**$ 3,865,487**	$ 3,582,004	$ 4,809,812

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

	December 31, 2022	December 31, 2021	December 31, 2020
Nonaccrual loans:			
Real estate mortgage	**$ 1,531,949**	$ 1,530,827	$ 2,333,469
Production and intermediate-term	**-**	152,020	32,855
Agribusiness	**1,230,368**	-	-
Energy	**270,164**	999,118	-
Total nonaccrual loans	**3,032,481**	2,681,965	2,366,324
Accruing restructured loans:			
Real estate mortgage	**833,006**	900,039	2,443,488
Total nonperforming assets	**$ 3,865,487**	$ 3,582,004	$ 4,809,812

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

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

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

	2022	2021	2020
Real estate mortgage			
Acceptable	**99.0** %	98.7 %	95.5 %
OAEM	**0.4**	0.5	3.4
Substandard/doubtful	**0.6**	0.8	1.1
	100.0	100.0	100.0
Production and intermediate-term			
Acceptable	**99.9**	98.4	76.5
OAEM	**0.1**	0.1	23.2
Substandard/doubtful	**-**	1.5	0.3
	100.0	100.0	100.0
Loans to cooperatives			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Processing and marketing			
Acceptable	**92.4**	100.0	93.8
OAEM	**-**	-	6.2
Substandard/doubtful	**7.6**	-	-
	100.0	100.0	100.0
Farm-related business			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Communication			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Energy			
Acceptable	**91.7**	79.5	100.0
OAEM	**-**	-	-
Substandard/doubtful	**8.3**	20.5	-
	100.0	100.0	100.0
Water and waste water			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Rural residential real estate			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Total Loans			
Acceptable	**98.7**	98.5	95.1
OAEM	**0.4**	0.4	4.0
Substandard/doubtful	**0.9**	1.1	0.9
	100.0 %	100.0 %	100.0 %

There were no loans and related interest in the loss category.

The following tables provide an aging analysis of past due loans (including accrued interest) as of December 31, 2022, 2021 and 2020:

December 31, 2022:	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or less than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 355,876**	**$ 675,028**	**$ 1,030,904**	**$ 308,829,509**	**$ 309,860,413**	**$ -**
Production and intermediate-term	**-**	**-**	**-**	**10,960,092**	**10,960,092**	**-**
Loans to cooperatives	**-**	**-**	**-**	**4,609,760**	**4,609,760**	**-**
Processing and marketing	**371,966**	**95,473**	**467,439**	**15,744,625**	**16,212,064**	**-**
Farm-related business	**-**	**-**	**-**	**2,287,215**	**2,287,215**	**-**
Communication	**-**	**-**	**-**	**7,246,589**	**7,246,589**	**-**
Energy	**-**	**766**	**766**	**3,245,582**	**3,246,348**	**-**
Water and wastewater	**-**	**-**	**-**	**2,028,852**	**2,028,852**	**-**
Rural residential real estate	**40,644**	**-**	**40,644**	**9,249,449**	**9,290,093**	**-**
Total	**$ 768,486**	**$ 771,267**	**$ 1,539,753**	**$ 364,201,673**	**$ 365,741,426**	**$ -**

December 31, 2021:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 334,662	$ 649,495	$ 984,157	$ 284,866,978	$ 285,851,135	$ -
Production and intermediate-term	-	-	-	13,488,398	13,488,398	-
Loans to cooperatives	-	-	-	3,175,958.00	3,175,958	-
Processing and marketing	-	-	-	17,628,157	17,628,157	-
Farm-related business	-	-	-	3,127,229	3,127,229	-
Communication	-	-	-	7,107,507	7,107,507	-
Energy	-	999,118	999,118	3,875,783	4,874,901	-
Water and wastewater	-	-	-	2,829,845	2,829,845	-
Rural residential real estate	-	-	-	7,385,579	7,385,579	-
Total	$ 334,662	$ 1,648,613	$ 1,983,275	$ 343,485,434	$ 345,468,709	$ -

December 31, 2020:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 1,136,229	$ -	$ 1,136,229	$ 242,434,642	$ 243,570,871	$ -
Production and intermediate-term	-	-	-	11,648,064	11,648,064	-
Loans to cooperatives	-	-	-	3,342,875	3,342,875	-
Processing and marketing	-	-	-	17,731,304	17,731,304	-
Farm-related business	-	-	-	3,059,643	3,059,643	-
Communication	-	-	-	8,899,594	8,899,594	-
Energy	-	-	-	4,710,956	4,710,956	-
Water and wastewater	-	-	-	3,069,217	3,069,217	-
Rural residential real estate	-	-	-	4,400,507	4,400,507	-
Total	$ 1,136,229	$ -	$ 1,136,229	$ 299,296,802	$ 300,433,031	$ -

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

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

As of December 31, 2022, the total recorded investment of troubled debt restructured loans was $1,778,198, including $945,192 classified as nonaccrual and $833,006 classified as accrual, with specific allowance for loan losses of $107,300. As of December 31, 2022, there were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring.

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). Charge-offs recorded at the modification date were $77,673 for the year ending December 31, 2022.

The predominant form of concession granted for troubled debt restructuring includes principal and interest reductions. Other types of modifications include extension of the term, principal or accrued interest reductions, interest rate decreases and delayed payments, among others. At times these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case the association assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

There were no additional commitments to lend to borrowers whose loans have been modified in TDRs at December 31, 2022, 2021, and 2020.

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

	Loans Modified as TDRs		
	December 31, 2022	December 31, 2021	December 31, 2020
Troubled debt restructurings:			
Real estate mortgage	**$ 1,508,034**	$ 1,547,017	$ 3,508,629
Production and intermediate-term	**-**	-	8,236
Energy	**270,164**	-	-
Total	**$ 1,778,198**	$ 1,547,017	$ 3,516,865

	TDRs in Nonaccrual Status*		
	December 31, 2022	December 31, 2021	December 31, 2020
Troubled debt restructurings:			
Real estate mortgage	**$ 675,028**	$ 646,978	$ 1,065,141
Production and intermediate-term	**-**	-	8,236
Energy	**270,164**	-	-
Total	**$ 945,192**	$ 646,978	$ 1,073,377

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

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/2022	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 202,492	$ 202,492	$ 53,375	$ 202,492	$ -
Processing and marketing	1,228,582	1,235,617	269,073	1,055,105	-
Energy and water/wastewater	270,164	348,127	53,925	1,003,319	-
Total	$ 1,701,238	$ 1,786,236	$ 376,373	$ 2,260,916	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,162,464	$ 2,202,003	$ -	$ 2,133,390	$ 47,600
Production and intermediate-term	-	352,940	-	-	16,001
Processing and marketing	1,786	11,021	-	11,140	-
Total	$ 2,164,250	$ 2,565,964	$ -	$ 2,144,530	$ 63,601
Total impaired loans:					
Real estate mortgage	$ 2,364,956	$ 2,404,495	$ 53,375	$ 2,335,882	$ 47,600
Production and intermediate-term	-	352,940	-	-	16,001
Processing and marketing	1,230,368	1,246,638	269,073	1,066,245	-
Energy and water/wastewater	270,164	348,127	53,925	1,003,319	-
Total	$ 3,865,488	$ 4,352,200	$ 376,373	$ 4,405,446	$ 63,601

	Recorded Investment at 12/31/2021	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 646,978	$ 646,978	$ 271,324	$ 651,572	$ -
Energy and water/wastewater	999,118	999,950	250,000	639,954	-
Total	$ 1,646,096	$ 1,646,928	$ 521,324	$ 1,291,526	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 1,783,889	$ 1,814,356	$ -	$ 1,880,860	$ 187,532
Production and intermediate-term	152,019	508,559	-	147,020	82,324
Total	$ 1,935,908	$ 2,322,915	$ -	$ 2,027,880	$ 269,856
Total impaired loans:					
Real estate mortgage	$ 2,430,867	$ 2,461,334	$ 271,324	$ 2,532,432	$ 187,532
Production and intermediate-term	152,019	508,559	-	147,020	82,324
Energy and water/wastewater	999,118	999,950	250,000	639,954	-
Total	$ 3,582,004	$ 3,969,843	$ 521,324	$ 3,319,406	$ 269,856

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

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

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2022, 2021 and 2020.

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

	2022	2021	2020
Interest income which would have been recognized under the original terms	**$ 287,646**	$ 390,458	$ 377,505
Less: interest income recognized	**(63,601)**	(269,856)	(221,190)
Foregone interest income	**$ 224,045**	$ 120,602	$ 156,315

A summary of the changes in the allowance for loan losses and unfunded commitments and the ending balance of loans outstanding are as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:								
Balance at December 31, 2021	$ 820,811	$ 301,325	$ 32,877	$ 2,994	$ 251,392	$ 1,982	$ 6,025	$ 1,417,406
Charge-offs	-	-	-	-	(77,673)	-	-	(77,673)
Recoveries	-	3,600	-	-	-	-	-	3,600
Provision for loan losses	42,835	(288,347)	264,325	66	(119,056)	(1,123)	1,315	(99,985)
Balance at December 31, 2022	$ 863,646	$ 16,578	$ 297,202	$ 3,060	$ 54,663	$ 859	$ 7,340	$ 1,243,348
Ending Balance: individually evaluated for impairment	$ 53,375		$ 269,073		$ 53,925	$ -	$ -	$ 376,373
Ending Balance: collectively evaluated for impairment	$ 810,270	$ 16,580	$ 28,129	$ 3,059	$ 738	$ 859	$ 7,339	$ 866,975
Recorded Investment in Loans Outstanding:								
Ending Balance at December 31, 2022	$ 309,860,413	$ 10,960,092	$ 23,109,039	$ 7,246,589	$ 3,246,348	$ 2,028,852	$ 9,290,093	$ 365,741,426
Ending balance for loans individually evaluated for impairment	$ 2,364,956		$ 1,230,368		$ 270,164	$ -	$ -	$ 3,865,488
Ending balance for loans collectively evaluated for impairment	$ 307,495,457	$ 10,960,092	$ 21,878,671	$ 7,246,589	$ 2,976,184	$ 2,028,852	$ 9,290,092	$ 361,875,937

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:								
Balance at December 31, 2020	$ 750,304	$ 362,065	$ 45,392	$ 4,184	$ 4,316	$ 2,352	$ 4,829	$ 1,173,442
Charge-offs	(9,906)	-	-	-	-	-	-	(9,906)
Recoveries	-	114,670	-	-	-	-	-	114,670
Provision for loan losses	80,413	(175,410)	(12,515)	(1,190)	247,076	(370)	1,196	139,200
Balance at December 31, 2021	$ 820,811	$ 301,325	$ 32,877	$ 2,994	$ 251,392	$ 1,982	$ 6,025	$ 1,417,406
Ending Balance: individually evaluated for impairment	$ -	$ 271,324	$ -	$ -	$ 250,000	$ -	$ -	$ 521,324
Ending Balance: collectively evaluated for impairment	$ 820,809	$ 30,003	$ 32,877	$ 2,994	$ 1,392	$ 1,982	$ 6,025	$ 896,082
Recorded Investment in Loans Outstanding:								
Ending Balance at December 31, 2021	$ 285,851,134	$ 13,488,398	$ 23,931,345	$ 7,107,507	$ 4,874,901	$ 2,829,845	$ 7,385,579	$ 345,468,709
Ending balance for loans individually evaluated for impairment	$ 2,430,866	$ 152,020	$ -	$ -	$ 999,118	$ -	$ -	$ 3,582,004
Ending balance for loans collectively evaluated for impairment	$ 283,420,267	$ 13,336,378	$ 23,931,345	$ 7,107,507	$ 3,875,783	$ 2,829,845	$ 7,385,579	$ 341,886,704

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:								
Balance at December 31, 2019	$ 719,322	$ 460,952	$ 51,437	$ 3,566	$ 4,434	$ 1,635	$ 3,987	$ 1,245,333
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	900	12,538	-	-	-	-	-	13,438
Provision for loan losses	30,082	(111,425)	(6,045)	618	(118)	717	842	(85,329)
Balance at December 31, 2020	$ 750,304	$ 362,065	$ 45,392	$ 4,184	$ 4,316	$ 2,352	$ 4,829	$ 1,173,442
Ending Balance: individually evaluated for impairment	$ 9,069	$ 300,442	$ -	$ -	$ -	$ -	$ -	$ 309,511
Ending Balance: collectively evaluated for impairment	$ 741,235	$ 61,623	$ 45,392	$ 4,184	$ 4,316	$ 2,352	$ 4,829	$ 863,931
Recorded Investment in Loans Outstanding:								
Ending Balance at December 31, 2020	$ 243,570,871	$ 11,648,064	$ 24,133,822	$ 8,899,594	$ 4,710,956	$ 3,069,217	$ 4,400,507	$ 300,433,031
Ending balance for loans individually evaluated for impairment	$ -	$ 32,856	$ 4,776,957	$ -	$ -	$ -	$ -	$ 4,809,813
Ending balance for loans collectively evaluated for impairment	$ 243,570,871	$ 11,615,208	$ 19,356,866	$ 8,899,594	$ 4,710,956	$ 3,069,217	$ 4,400,507	$ 295,623,219

NOTE 4 — INVESTMENT IN THE FARM CREDIT BANK OF TEXAS

The investment in the Farm Credit Bank of Texas is a requirement of borrowing from the bank and is carried at cost plus allocated equities in the accompanying consolidated balance sheet. Estimating the fair value of the association's investment in the Farm Credit Bank of Texas is not practicable because the stock is not traded. The association owned 1.28%, 1.27%, and 1.29% of the issued stock of the bank as of December 31, 2022, 2020 and 2019. As of those dates, the bank's assets totaled $35.99 billion, $33.09 billion, and $28.23 billion and members' equity totaled $1.62 billion, $2.00 billion and $1.99 billion . The bank's earnings were $269.9 million, $254.6 million, and $251.1 million during 2022, 2021 and 2020.

NOTE 5 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2022	2021	2020
Land and improvements	**$ 1,249,676**	$ 1,249,676	$ 827,405
Building and improvements	**2,683,668**	2,683,668	2,542,746
Furniture and equipment	**360,444**	345,562	308,957
Computer equipment and software	**271,743**	217,527	125,562
Automobiles	**662,275**	662,275	619,443
Construction in progress	**1,025,818**	51,765	169,373
	6,253,624	5,210,473	4,593,486
Accumulated depreciation	**(1,177,270)**	(934,134)	(854,622)
Total	**$ 5,076,354**	$ 4,276,339	$ 3,738,864

The association owns buildings in Sulphur Springs, Canton, Gilmer, Longview and Terrell, and leases office space in Sulphur Springs (three locations). Two of the Sulphur Springs building leases are one-year leases which expire in 2022, and the third is a three-year lease, which expires in 2023. Lease expense was $54,828, $55,173, and $36,005 for 2022, 2021, and 2020, respectively.

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

	Operating Leases
2023	$ 50,750
2024	0
2025	0
2026	0
2027	0
Total	$ 50,750

NOTE 6 — OTHER PROPERTY OWNED, NET:

At December 31, 2022, 2021 and 2020, the association held no acquired property

NOTE 7 — OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	2022	2021	2020
Accounts receivable other	**$ 194,603**	$ 177,175	$ 149,445
Other	**46,151**	14,837	12,600
Total	**$ 240,754**	$ 192,012	$ 162,045

Other liabilities comprised the following at December 31:

	2022	2021	2020
Accounts payable	**$ 1,315,716**	$ 1,441,656	$ 956,979
Postretirement benefits liability	**220,172**	286,181	284,507
Accrued annual leave	**216,242**	212,635	174,168
Other	**8,523**	10,752	14,420
Total	**$ 1,760,653**	$ 1,951,224	$ 1,430,074

NOTE 8 — NOTE PAYABLE TO THE BANK:

The interest rate risk inherent in the association's loan portfolio is substantially mitigated through the funding relationship with the bank. The bank manages interest rate risk through its direct loan pricing and asset/liability management process. The association's indebtedness to the bank represents borrowings by the association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the association's assets and is governed by a general financing agreement. The interest rate on the direct loan is based upon the bank's cost of funding the loans the association has outstanding to its borrowers. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2023, unless sooner terminated by the bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the bank 120 days' prior written notice.

The total amount and the weighted average interest rate of the association's direct loan from the bank at December 31, 2022, 2021 and 2020, was $305,607,123 at 2.39%, $286,451,817 at 2.07% and $242,927,735 at 2.52%, 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, 2022, 2021 and 2020, the association's note payable was within the specified limitations. The maximum amount the association may borrow from the bank as of December 31, 2022, was $360,947,366, as defined by the general financing agreement.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt, and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the general financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits or repayment of indebtedness. As of and for the years ended December 31, 2022, 2021 and 2020, the association was not subject to remedies associated with the covenants in the general financing agreement.

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

NOTE 9 — MEMBERS' EQUITY:

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

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

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

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our board of directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2022, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

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

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

Each owner of Class A capital stock is entitled to a single vote, though 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, 2022, 2021 and 2020, the association had $1,000, $1,000 and $1,000 of Class C stock, respectively.

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

Dividends and patronage distributions may be paid on the capital stock and participation certificates of the association, as the board of directors may determine by resolution, subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. The following dividends and patronage distributions were declared and paid in 2022, 2021 and 2020, respectively:

Date Declared	Date Paid	Patronage
January 2022	March 2022	2,845,692
January 2021	March 2021	2,469,972
January 2020	April 2020	2,365,866

The Farm Credit Administration sets minimum regulatory capital requirements for banks and associations. Effective January 1, 2017, new regulatory capital requirements for banks and associations were adopted. These new requirements replaced the core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 Capital and Total Capital risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System banks with a Tier 1 Leverage ratio and an Unallocated Retained Earnings (URE) and URE Equivalents Leverage ratio that are applicable to both the banks and associations. The Permanent Capital Ratio continues to remain in effect; however, the risk-weighted assets are calculated differently than in the past. As of December 31, 2022, the association is not prohibited from retiring stock or distributing earnings; furthermore, neither the board nor senior management knows of any such prohibitions that may apply during the subsequent fiscal year.

The following sets forth the regulatory capital ratio requirements and ratios at December 31, 2022:

Risk-weighted:	Regulatory Minimums	Regulatory Requirements Including Capital Conservation Buffers	As of December 31, 2022
Common equity tier 1 ratio	4.50%	7.00%	18.06%
Tier 1 capital ratio	6.00%	8.50%	18.06%
Total capital ratio	8.00%	10.50%	18.50%
Permanent capital ratio	7.00%	7.00%	18.14%
Non-risk-weighted:			
Tier 1 leverage ratio	4.00%	5.00%	16.32%
UREE leverage ratio	1.50%	1.50%	16.00%

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

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

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

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

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of seven years, allocated equities held for a minimum of seven years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-weighted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-weighted assets.
- Total capital is tier 1 capital plus other required borrower stock held for a minimum of five years, allocated equities held for a minimum of five years, subordinated debt and limited-life preferred stock greater than five years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-weighted assets.
- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-weighted assets.
- Tier 1 leverage ratio is tier 1 capital (at least 1.5% must be URE and URE equivalents), including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

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

The components of the association's risk-weighted capital, based on 90-day average balances, were as follows at December 31, 2022:

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	**$ 43,047,929**	**$ 43,047,929**	**$ 43,047,929**	**$ 43,047,929**
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**1,195,046**	**1,195,046**	**1,195,046**	**1,195,046**
Nonqualified allocated equities not subject to retirement	**21,076,255**	**21,076,255**	**21,076,255**	**21,076,255**
Allowance for loan losses and reserve for credit losses subject to certain limitations			**1,457,485**	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(5,210,837)**	**(5,210,837)**	**(5,210,837)**	**(5,210,837)**
	$ 60,108,393	$ 60,108,393	$ 61,565,878	$ 60,108,393
Denominator:				
Risk-adjusted assets excluding allowance	**$ 338,037,761**	**$ 338,037,761**	**$ 338,037,761**	**$ 338,037,761**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**(5,210,837)**	**(5,210,837)**	**(5,210,837)**	**(5,210,837)**
Allowance for loan losses				**(1,457,485)**
	$ 332,826,924	$ 332,826,924	$ 332,826,924	$ 331,369,439
Calculated Ratio	**18.06%**	**18.06%**	**18.50%**	**18.14%**

*Capped at 1.25% of risk-weighted assets and inclusive of the reserve for unfunded commitments.

The components of the association's non-risk-weighted capital, based on 90-day average balances, were as follows at December 31, 2022:

(dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	**$ 43,047,929**	**$ 43,047,929**
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	**1,195,046**	**-**
Nonqualified allocated equities not subject to retirement	**21,076,255**	**21,076,255**
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	**(5,210,837)**	**(5,210,837)**
	$ 60,108,393	**$ 58,913,347**
Denominator:		
Total Assets	**$ 376,197,873**	**$ 376,197,873**
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	**(7,969,706)**	**(7,969,706)**
	$ 368,228,167	$ 368,228,167
Calculated Ratio	**16.32%**	**16.00%**

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

	2022	2021	2020
Class A stock	**220,306**	218,630	206,844
Class C stock	**200**	200	200
Participation certificates	**17,998**	15,742	9,838
Total	**238,504**	234,572	216,882

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

	2022	2021	2020
Nonpension postretirement benefits	**60,450**	1,412	6,987

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

	2022	2021	2020
Accumulated other comprehensive income (loss) at January 1	**$ 1,412**	$ 6,987	$ 26,084
Actuarial gains (losses)	**60,603**	(4,010)	(17,532)
Amortization of prior service (credit) costs included in salaries and employee benefits	**(1,565)**	(1,565)	(1,565)
Other comprehensive income (loss), net of tax	**59,038**	(5,575)	(19,097)
Accumulated other comprehensive income at December 31	**$ 60,450**	$ 1,412	$ 6,987

NOTE 10 — INCOME TAXES:

There was no provision for income taxes for the years ended December 31, 2022, 2021, and 2020.

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

	2022	2021	2020
Federal tax at statutory rate	**$ 1,185,759**	$ 883,672	$ 947,723
Effect of nontaxable FLCA subsidiary	**(1,659,949)**	(1,370,271)	(1,393,073)
Change in valuation allowance	**474,190**	486,599	445,350
Provision for (benefit from) income taxes	**$ -**	$ -	$ -

Deferred tax assets and liabilities in accordance with accounting guidance, "Accounting for Income Taxes," are comprised of the following at December 31:

	2022	2021	2020
Deferred Tax Assets			
Allowance for loan losses	**$ 14,010**	$ 63,382	$ 71,573
Loss carryforwards	**7,268,147**	6,726,774	6,215,862
Gross deferred tax assets	**7,282,157**	6,790,156	6,287,435
Deferred tax asset valuation allowance	**(7,282,157)**	(6,790,156)	(6,287,435)
Net deferred tax asset (liability)	**$ -**	$ -	$ -

The association recorded valuation allowances of $7,282,157, $6,790,156 and $6,287,435 during 2022, 2021 and 2020, respectively. The valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50% probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the association's expected patronage program, which reduces taxable earnings. The association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly. The association's net operating loss carryforward at December 31, 2022 approximates $33,066,846, of which $21,828,449 will begin to expire in 2025 and $11,238,397 has an indefinite carryforward period.

NOTE 11 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: Employees of the association participate in either the defined benefit retirement plan (DB plan) or the defined contributions plan (DC plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. These plans are described more fully in section I of Note 2, "Summary of Significant Accounting Policies." The structure of the district's DB plan is characterized as multi-employer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (bank and associations). No portion of any surplus assets is available to any participating employer. As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon district combination only. The association records current contributions to the DB plan as an expense in the current year.

The CEO and certain executive or highly compensated employees in the association are eligible to participate in a separate nonqualified supplemental 401(k) plan, named the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (supplemental 401(k) plan). This plan allows district employers to elect to participate in any or all of the following benefits:

- Restored Employer Contributions – to allow "makeup" contributions for eligible employees whose benefits to the qualified 401(k) plan were limited by the Internal Revenue Code during the year
- Elective Deferrals – to allow eligible employees to make pre-tax deferrals of compensation above and beyond any deferrals into the qualified 401(k) plan
- Discretionary Contributions – to allow participating employers to make a discretionary contribution to an eligible employee's account in the plan, and to designate a vesting schedule

The association elected to participate in the defined contribution supplemental retirement plan. There were no contributions made to this plan for the years ended December 31, 2022, 2021 and 2020. There were no payments made from the supplemental 401(k) plan to active employees during 2022, 2021 and 2020.

The DB plan is non-contributory and benefits are based on salary and years of service. The legal name of the plan is Farm Credit Bank of Texas Pension Plan; its employer identification number is 74-1110170. The DB plan is not subject to any contractual expiration dates. The DB plan's funding policy is to fund current year benefits expected to be earned by covered employees plus an amount to improve the accumulated benefit obligation funded status by a percentage approved by the plan sponsor. The plan sponsor is the board of the Farm Credit Bank of Texas. The "projected unit credit" actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan, to facilitate reorganization and/or restructuring. The actuarial present value of vested and nonvested accumulated benefit obligation exceeded the net assets of the DB plan as of December 31, 2022.

The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
c. If the association chooses to stop participating in some of its multiemployer plans, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The following table includes additional information regarding the funded status of the plan, the association's contributions, and the percentage of association contribution to total plan contributions for the years ended December 31, 2022, 2021 and 2020:

	2022	2021	2020
Funded status of plan	**70.9%**	70.5%	62.6%
Association's contribution	**$ 25,160**	$ 38,625	$ -
Percentage of association's contribution to total contributions	**0.2%**	0.3%	0.0%

The funded status presented above is based on the percentage of plan assets to projected benefit obligations. DB plan funding is based on the percentage of plan assets to the accumulated benefit obligation, which was 71.8%, 72.0% and 64.3% at December 31, 2022, 2021 and 2020, respectively.

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

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

Retiree Welfare Benefit Plans

Disclosure Information Related to Retirement Benefits	**2022**	2021	2020
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	**$ 286,181**	$ 284,507	$ 270,060
Service cost	**5,328**	8,276	8,389
Interest cost	**8,647**	7,711	9,023
Plan participants' contributions	**6,062**	10,222	6,168
Plan amendments	**-**	-	-
Special termination benefits	**-**	-	-
Actuarial loss (gain)	**(60,603)**	4,010	17,532
Benefits paid	**(24,653)**	(28,545)	(26,665)
Accumulated postretirement benefit obligation, end of year	**$ 220,962**	$ 286,181	$ 284,507
Change in Plan Assets			
Plan assets at fair value, beginning of year	**$ -**	$ -	$ -
Actual return on plan assets	**-**	-	-
Company contributions	**18,591**	18,323	20,497
Plan participants' contributions	**6,062**	10,222	6,168
Benefits paid	**(24,653)**	(28,545)	(26,665)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Funded status of the plan	**$ (220,962)**	$ (286,181)	$ (284,507)
Amounts Recognized on the Balance Sheets			
Other liabilities	**$ (220,962)**	$ (286,181)	$ (284,507)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss (gain)	**$ (55,319)**	$ 5,284	$ 1,274
Prior service cost (credit)	**(5,131)**	(6,696)	(8,261)
Net transition obligation (asset)	**-**	-	-
Total	**$ (60,450)**	$ (1,412)	$ (6,987)
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	**12/31/2022**	12/31/2021	12/31/2020
Discount rate	**5.20%**	3.15%	2.80%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**7.20%**	6.80%	6.90%
Health care cost trend rate assumed for next year - Rx	**7.70%**	6.00%	6.40%
Ultimate health care cost trend rate	**4.50%**	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	**2031**	2030	2029

Total Cost	2022	2021	2020
Service cost	**$ 3,446**	$ 5,328	$ 8,389
Interest cost	**11,077**	8,647	9,023
Expected return on plan assets	**-**	-	-
Amortization of:			
Unrecognized net transition obligation (asset)	**-**	-	-
Unrecognized prior service cost	**(1,565)**	(1,565)	(1,565)
Unrecognized net loss (gain)	**(2,137)**	-	-
Net postretirement benefit cost	**$ 10,821**	$ 12,410	$ 15,847
Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income			
Net actuarial loss (gain)	**$ (60,603)**	$ 4,010	$ 17,532
Amortization of net actuarial loss (gain)	**-**	-	-
Prior service cost (credit)	**-**	-	
Amortization of prior service cost	**-**	-	-
Recognition of prior service cost	**1,565**	1,565	1,565
Amortization of transition liability (asset)	**-**	-	-
Total recognized in other comprehensive income	**$ (59,038)**	$ 5,575	$ 19,097
AOCI Amounts Expected to be Amortized Into Expense in 2023			
Unrecognized net transition obligation (asset)	**$ -**		
Unrecognized prior service cost	**(1,565)**		
Unrecognized net loss (gain)	**(2,137)**		
Total	**$ (3,702)**		
Weighted-Average Assumptions Used to Determine Benefit Cost			
Measurement date	**12/31/2021**	12/31/2020	12/31/2019
Discount rate	**3.15%**	2.80%	3.45%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**6.80%**	6.90%	6.90%
Health care cost trend rate assumed for next year - Rx	**6.00%**	6.40%	6.40%
Ultimate health care cost trend rate	**4.50%**	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	**2030**	2029	2029

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)	
Fiscal 2023	**$ 16,071**
Fiscal 2024	**15,456**
Fiscal 2025	**14,671**
Fiscal 2026	**13,802**
Fiscal 2027	**12,887**
Fiscal 2028–2032	**52,166**
Expected Contributions	
Fiscal 2023	**$ 16,071**

NOTE 12 — RELATED PARTY TRANSACTIONS:

Directors of the association, except for any director-elected directors, are required to be borrowers/stockholders of the association. Also, in the ordinary course of business, the association may enter into loan origination or servicing transactions with its officers, relatives of officers and directors, or with organizations with which such persons are associated. Such loans are subject to special approval requirements contained in FCA regulations and are made on the same terms, including interest rates, amortization schedule and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons at December 31, 2022, 2021 and 2020 for the association amounted to \$8,711,421, \$7,447,918 and \$2,292,064. During 2022, 2021 and 2020, \$3,443,998, \$10,589,747, and \$1,214,813 of new loans were made, and repayments totaled \$3,198,033, \$4,164,913, and \$1,129,167, respectively. In the opinion of management, no such loans outstanding at December 31, 2022, 2021 and 2020 involved more than a normal risk of collectability.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems and accounting services and allocations of expenses incurred by the bank and passed through to the associations, such as FCSIC expenses. The bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled \$634,728, \$486,855, and \$334,115 in 2022, 2021 and 2020, respectively.

The association received patronage payments from the bank totaling \$2,178,243, \$1,871,647, and \$1,409,361 during 2022, 2021 and 2020, respectively.

NOTE 13 — FAIR VALUE MEASUREMENTS:

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. See Note 2, "Summary of Significant Accounting Policies," for additional information.

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

December 31, 2022	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans	**$ -**	**$ -**	**$1,324,866**	**$1,324,866**

December 31, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ 1,124,772	$ 1,124,772

December 30, 2020	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ 1,181,225	$ 1,181,225

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

	December 31, 2022				
	Fair Value Measurement Using				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:					
Cash	**$ 127,481**	**$ -**	**$ -**	**$ -**	**$ -**
Net loans	**361,364,752**	**-**	**-**	**328,064,480**	**328,064,480**
Total Assets	**$361,492,233**	**$ -**	**$ -**	**$328,064,480**	**$328,064,480**
Liabilities:					
Note payable to bank	**$305,607,123**	**$ -**	**$ -**	**$277,512,399**	**$277,512,399**
Total Liabilities	**$305,607,123**	**$ -**	**$ -**	**$277,512,399**	**$277,512,399**

	December 31, 2021				
	Fair Value Measurement Using				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 104,802	$ 104,802	$ -	$ -	$ 104,802
Net loans	341,737,640	-	-	340,547,587	340,547,587
Total Assets	$ 341,842,442	$ 104,802	$ -	$ 340,547,587	$ 340,652,389
Liabilities:					
Note payable to bank	$ 286,451,817	$ -	$ -	$ 285,456,897	$ 285,456,897
Total Liabilities	$ 286,451,817	$ -	$ -	$ 285,456,897	$ 285,456,897

	December 31, 2020				
	Fair Value Measurement Using				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 129,112	$ 129,112	$ -	$ -	$ 129,112
Net loans	296,816,238	-	-	301,880,892	301,880,892
Total Assets	$ 296,945,350	$ 129,112	$ -	$ 301,880,892	$ 302,010,004
Liabilities:					
Note payable to bank	$ 242,927,735	$ -	$ -	$ 247,060,845	$ 247,060,845
Total Liabilities	$ 242,927,735	$ -	$ -	$ 247,060,845	$ 247,060,845

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

The association had no assets or liabilities measured at fair value on a recurring basis for 2022, 2021, or 2020.

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

Valuation Techniques

As more fully discussed in Note 2, "Summary of Significant Accounting Policies," accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair values of financial instruments represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability in active markets among willing participants at the reporting date. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain of the estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction. The following represent a brief summary of the valuation techniques used by the association for assets and liabilities:

Loans Evaluated for Impairment

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

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 14 — COMMITMENTS AND CONTINGENCIES

In addition to those commitments and contingencies discussed in Note 2, "Summary of Significant Accounting Policies," the association is involved in various legal proceedings in the ordinary course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the association

The association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2022, $24,988,014 of commitments and $70,875 of commercial letters of credit were outstanding.

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

NOTE 15 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

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

	2022				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 2,411**	**$ 2,474**	**$ 2,537**	**$ 2,563**	**$ 9,985**
(Provision for) reversal of loan losses	**(17)**	**(25)**	**13**	**129**	**100**
Noninterest income (expense), net	**(1,143)**	**(1,105)**	**(1,112)**	**(1,078)**	**(4,438)**
Net income	**$ 1,251**	**$ 1,344**	**$ 1,438**	**$ 1,614**	**$ 5,647**

	2021				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,180	$ 2,252	$ 2,273	$ 2,344	$ 9,049
(Provision for) reversal of loan losses	(67)	(68)	26	(31)	(140)
Noninterest income (expense), net	(1,130)	(1,292)	(1,238)	(1,041)	(4,701)
Net income	$ 983	$ 892	$ 1,061	$ 1,272	$ 4,208

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

NOTE 16 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through March 9, 2023, which is the date the financial statements were issued or available to be issued and has determined that there were no other events requiring disclosure.

DISCLOSURE INFORMATION AND INDEX

(Unaudited)

Disclosures Required by Farm Credit Administration Regulations

DESCRIPTION OF BUSINESS

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

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

DESCRIPTION OF PROPERTY

Legacy serves its 10-county territory through its main administrative and lending office at 303 Connally St., Sulphur Springs, Texas 75482. Additionally, there are four branch lending offices located throughout the territory. The association owns the office buildings in Sulphur Springs, Gilmer, Canton, Terrell, and Longview. The association leases three office buildings in Sulphur Springs.

LEGAL PROCEEDINGS

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

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference from Note 9 to the consolidated financial statements, “Members’ Equity,” included in this annual report.

DESCRIPTION OF LIABILITIES

The description of liabilities required to be disclosed in this section is incorporated herein by reference from Note 8, “Note Payable to the Bank,” Note 11, “Employee Benefit Plans,” and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in this annual report.

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

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

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

The annual and quarterly stockholder reports of the Farm Credit Bank of Texas (bank) are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720-2590 or calling (512) 465-1881. Copies of the bank annual and quarterly stockholder reports can also be requested by emailing *fcb@farmcreditbank.com*. The annual and quarterly stockholder reports are also available on its website at *www.farmcreditbank.com*.

The association’s quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter end and can be obtained by writing to Legacy Ag Credit, ACA 303 Connally St., Sulphur Springs, Texas 75482 or calling (903) 885-9566. Copies of the association’s quarterly stockholder reports can also be requested by emailing sherry.sturgis@legacyaca.com. The association's annual stockholder report is available on its website at www.legacyaca.com 75 days after the fiscal year end. Copies of the association's annual stockholder report can also be requested 90 days after the fiscal year end.

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2022, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Consolidated Financial Data" included in this annual report to stockholders.

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

"Management's Discussion and Analysis," which precedes the consolidated financial statements in this annual report, is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

The association's member-elected and director-elected board of directors and senior officers are as follows:

NAME	POSITION	DATE ELECTED/ EMPLOYED	TERM EXPIRES
Terry D. Milligan	Chairman of the board	2010	2025
Cheryl Scott	Board-appointed director	2019	2025
Cody Newman	Director	2000	2022
Brandon Sides	Director	2017	2023
Danny Evans	Director	2018	2024
Clay Smith	Director	2020	2023
Thomas Goodson	Director	2021	2024
Robert Tiller	Director	2022	2025
Derrell Chapman	CEO	2017	-
Sherry Sturgis	SVP/CAO	2007	-
Jake Agaron	SVP/CCO	2014	-
Heather Johnson	CFO	2011	-

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

Terry D. Milligan, director, chairman of the board and a member of the audit committee. Mr. Milligan owns and operates a beef cattle and hay production operation in Van Zandt County and Bryan and Atoka counties in Oklahoma, and he operates Milligan & Company Fire Ant Control. In 2015, he retired from USDA after 34 years of service. Ranching has been his principal occupation for the past five years. Mr. Milligan holds an associate's degree in Farm and Ranch Management from Murray State College in Tishomingo, Oklahoma. Mr. Milligan has served as chairman of the board since 2016. He had previously served as vice chairman of the board and executive session secretary, and he is the association's representative on the Farm Credit Bank of Texas Stockholder Advisory Council and nominating committee. He has served as stockholder-elected director since his election in 2010.

Cheryl Scott, director and chair of the audit committee. Mrs. Scott resides in the Miller Grove community in Hopkins County, Texas, and is a certified public accountant who is an accounting instructor at Texas A&M University-Commerce, which has been her principal occupation for the past five years. She earned a Bachelor of Science degree in Professional Accountancy and a Master of Business Administration degree from Texas A&M University-Commerce. Mrs. Scott previously served as the director of financial reporting and the director of emerging financial services at the university. She has also served as business manager for the NCAA Lone Star Conference. Mrs. Scott was selected as an outside or board-appointed director in September 2019.

Brandon Sides, director, vice chairman of the board and chairman of the compensation committee. Mr. Sides resides in Canton, Texas, where he is owner and operator of Sides Pea Farm & Processing Facility, which has been his principal occupation for the past five years. He serves on the Dallas School District Farm to School Steering Committee. Mr. Sides holds a Political Science degree with a minor in Business and Spanish from the University of Texas. Mr. Sides has served as stockholder-elected director since his election in 2017.

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

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

Thomas Goodson, director and member of compensation committee. Mr. Goodson resides in Van Zandt County, where he owns and operates East Texas Seals, an oil and gas industry parts and supply business. He also owns and operates, with his wife Dedra, Goodson Land and Cattle Company, a 150-head beef cattle operation that produces registered Angus seed stock. Operating the oil and gas industry supply business and ranching have been his principal occupations for the past five years. He currently serves on the board of 4 Gens ministry and is president of the Parker Hannifin Distributor Advisory Council (oil and gas industry group). He earned a bachelor's degree in business administration from the University of North Texas. Mr. Goodson has served as stockholder-elected director since his election in 2021.

Robert Tiller, director and member of compensation committee holds a Doctor of Veterinary Medicine degree from Texas A&M University and has been a practicing veterinarian in Texas and Louisiana since 1976. Dr. Tiller is the owner/operator of Tiller Veterinary Clinic in Waskom, Texas. He also owns a ranch operation encompassing 7,000 acres in Panola and Harrison Counties and produces beef cattle, hay, and timber and is owner of Tiller Irrigation. Dr. Tiller is a member of the Texas Southwest Cattle Raisers Association, the Texas Veterinary Medicine Association, and the Louisiana Veterinary Medicine Association. Dr. Tiller has served as stockholder-elected director since his election in 2022.

Derrell Chapman, CPA, serves as chief executive officer. He was selected as CEO and began his service with the association in September of 2017. He previously served as president and CEO and as a director of First Federal Bank Texas and its holding company, East Texas Financial Services, Inc., both located in Tyler, Texas. He previously served as chief financial officer of those same entities. Mr. Chapman was also a regional president for a $22 billion commercial bank in the Tyler market. Mr. Chapman has a BBA in finance from Texas A&M University in College Station, Texas. Mr. Chapman is a certified public accountant licensed in the state of Texas and has over 40 years of experience in the financial services industry.

Jake Aragon joined the association in 2014 and currently serves as chief credit officer. Mr. Aragon began his FCS career with Farm Credit of New Mexico in 2000. Mr. Aragon has more than 19 years of farm credit experience in various capacities with associations, and served as CCO with AgriLand, FCS prior to that association's merger with Texas AgFinance, FCS. Mr. Aragon holds a Bachelor of Business Administration in finance with a minor in management and a Bachelor of Accountancy with a minor in economics from New Mexico State University.

Sherry Sturgis joined Legacy in 2007 and serves as senior vice-president and chief administrative officer. Mrs. Sturgis has more than 22 years of banking experience in the Sulphur Springs area, most recently serving as senior administrative officer with Guaranty Bond Bank. Mrs. Sturgis began her banking career in 1988 with Texas Commercial Savings, continuing while under the management of the Resolution Trust Corporation, and served as administrative officer of First American Bank & Mortgage until the merger with Guaranty Bond Bank. She has extensive operational experience, including credit operations and human resource management. She attended Texas A&M University in Commerce (formerly East Texas State University).

Heather Johnson, CPA, joined Legacy in 2011 and currently serves as chief financial officer, having previously served as controller. She has more than 30 years of financial accounting and reporting experience. Mrs. Johnson holds Bachelor of Business Administration degree in accounting from Texas Christian University and is a certified public accountant licensed in the state of Texas.

COMPENSATION OF DIRECTORS

During 2022, directors were compensated for their service to the association in the form of an honorarium at the rate of $850 per day for in-person official activities, $150 for teleconference meetings lasting one hour or less, and $300 for teleconferences lasting more than one hour. For committee meetings conducted the same day as the board meetings, additional compensation at the rate of $150 per hour for a time period not to exceed three hours was also paid board members. The chair of the board and audit committee chair each received a monthly retainer of $1,100 per for one in-person meeting but were paid the regular honorarium for all other in-person activities each month. The retainer is paid monthly whether or not there is an in-person meeting or activity. Directors were also reimbursed for certain expenses incurred while representing the association in an official capacity Mileage for attending official meetings during 2022 was paid at the IRS-approved rate of 58.5 cents per mile for the first six months and 62.5 cents per mile for the last six months of the year. A copy of the travel policy is available to stockholders of the association upon request.

	Number of Days Served Associated With		
Director	Board Meetings	Other Official Activities	Total Compensation in 2022
Terry D. Milligan	13	39	$ 37,458
Cheryl Scott	13	60	36,185
Cody Newman	6	5	6,700
Brandon Sides	12	14	18,275
Danny Evans	11	20	18,957
Clay Smith	13	24	25,058
Thomas Goodson	13	17	20,275
Robert Tiller	6	3	6,475
			$ 169,383

The aggregate compensation paid to directors in 2022, 2021 and 2020 was $169,383, $124,965 and $116,831, respectively. Additional detail regarding director compensation paid for committee service (included in the table above) is as follows for 2022:

	Committee	
Director	Audit	Other Official Activities
Terry D. Milligan	$ 1,663	$ 35,795
Cheryl Scott	1,963	34,222
Cody Newman	1,000	5,700
Brandon Sides	-	18,275
Danny Evans	1,363	17,594
Clay Smith	813	24,245
Thomas Goodson	-	20,275
Robert Tiller	-	6,475
	$ 6,802	$ 162,581

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $58,710, $17,880 and $55,438 in 2022, 2021 and 2020, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Senior Officers

Overview

The compensation plan for all employees provides for base salaries to be administered consistent with competitive financial industry survey data of like-sized financial institutions. In 2021, 2020 and 2019 bonuses were paid in accordance with the bonus plan as discussed below.

A critical factor to the association's success is its ability to attract, develop and retain staff members who are knowledgeable and efficient in their ability to support the association in the execution of its strategic objectives and delivery of association results that maximize the value to the stockholders. This objective holds particularly true for the association's chief executive officer (CEO) and senior officer group. The association operates utilizing a compensation program that focuses on the performance and contributions of its employees in achieving the association's financial and operational objectives, all for the ultimate benefit of its stockholder/members. The association's board of directors, through its compensation committee, establishes salary and incentive programs utilizing data derived from independent third-party compensation specialists in the financial services sector to ensure that salary and incentive structures are in line with market-comparable positions. Studies provided by third-party compensation specialists form the foundation for the association's evaluation and establishment of salary and incentive plans used by the association.

All association employees, with the exception of the CEO and loan officers who do not meet established minimums of production goals, can earn compensation above base salary through an annual success-sharing incentive plan. The term of the plan is each calendar year beginning January 1 through December 31. The Team-Based Plan is based upon the achievement of predetermined association performance goals for interest rate spreads, accrual loan volume growth, adjusted net income and loan fees collected.

Production-based incentive payments can be earned by loan officers when they meet and exceed their respective loan production goals. Loan officers can earn 8-20 basis points times the amount of their individual loan production based on a tiered production goal established by management. Loan officers who have individually assigned production goals must meet established minimum loan production goals to receive any incentive compensation from the team-based portion of the team-based plan.

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

In addition to the above, loan officers can earn an incentive based on Average Daily Balance (ADB) Growth. ADB Growth is defined as the year-end percentage increase in the association's average daily balance of Accrual Loan Volume in 2021. Loan officers can earn a percentage of their annual base salary, ranging from 2% to 8%, determined by the annual percentage growth in ADB for the year. A loan officer can earn an incentive equal to the percentage growth in ADB for the association in 2021 multiplied by their annual base salary. ADB must increase by a minimum of 2% for this incentive to apply. The incentive is capped at a maximum of 8%. Loan officers who have individually assigned production goals must achieve 90% of their individual loan production goal to earn this incentive.

The following criteria is also used for determining eligibility for the incentive pay: (1) the association must receive an overall rating of "satisfactory" on credit administration on its Internal Credit Review and (2) eligible employees must receive an annual performance rating of "meets standards" on their individual performance reviews.

Chief Executive Officer (CEO) Compensation Policy

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

Summary Compensation Table

The following table summarizes the compensation paid to the CEO and all senior officers of the association during 2022, 2021 and 2020. This may include other non-senior officers if their total compensation is within the top five highest paid employees. Amounts reflected in the table are presented in the year the compensation was earned.

Name of Individual or number in group	Year	Salary (b)	Bonus (c)	Deferred/ Perquisite (d)	Total
Derrell Chapman - CEO	**2022**	**$ 250,000**	**$ 37,500**	**$ 40,646**	**$ 328,146**
Derrell Chapman - CEO	2021	238,000	50,000	42,333	330,333
Derrell Chapman - CEO	2020	224,509	40,410	36,520	301,439
Senior Officers/OHCI (a)					
5	**2022**	**$ 716,734**	**$ 153,985**	**$ 126,470**	**$ 997,189**
6	2021	768,372	231,465	157,542	1,157,379
5	2020	590,663	108,725	93,577	792,965

(a) Aggregate number of senior officers/highly compensated individuals, excluding CEO.
(b) Gross salary, including retention plan compensation for certain senior officers.
(c) Bonuses paid in subsequent calendar year.
(d) Deferred/Perquisites include contributions to 401(k) and defined contribution plans, supplemental 401(k) discretionary contributions, automobile benefits and premiums paid for life insurance

Certain employees are assigned association-owned vehicles for use in normal business operations and for a defined allowance of personal miles. For all personal mileage traveled in association vehicles, the association includes in the earnings of the respective employees an amount derived by an IRS established method. Amounts relating to personal use of association vehicles are included in the "Deferred/Perquisite" column in the table above along with other association-provided benefits. Employees who use their personal automobile for business purposes were reimbursed during 2021 at the IRS-approved rate of 62.5 cents per mile.

Neither the CEO nor any other senior officer received noncash compensation exceeding $5,000 in 2022, 2021 and 2020.

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

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

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

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

There have been no events that have occurred in the past five years (bankruptcy, conviction or naming in a criminal proceeding, or judgment or finding limiting a right to engage in a business) that are material to the evaluation of the ability or integrity of any person who served as director or senior officer of the association.

RELATIONSHIP WITH INDEPENDENT AUDITOR

The association selected PricewaterhouseCoopers LLP to audit its financial statements and provide an opinion thereon for its 2022 annual report. The total fees for professional services rendered by PricewaterhouseCoopers LLP for the association related to 2022 were $100,810 for audit services, $13,500 for tax services and $900 for nonaudit services.

RELATIONSHIP WITH UNINCORPORATED BUSINESS ENTITIES

The association has no business relationships with any unincorporated business entities as of December 31, 2022.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 9, 2023, and the report of management in this annual report to stockholders, are incorporated herein by reference.

MEMBER/SHAREHOLDER PRIVACY

Members' nonpublic personal financial information is protected by Farm Credit Administration regulation. Our directors and employees are restricted from disclosing information not normally contained in published reports or press releases about the association or its members.

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

Mission

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

Definitions

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

The association YBS plan outlines strategies to increase market share success, a YBS market outreach program that generates participation and involvement by association staff at the field level.

Strategies include:

1. YBS Program on the association website
2. Legacy Ag Credit Community Commitment
3. Utilization of YBS Advisory Committee
4. Country Loan, Small Loan Program and New Generation Loan Program
5. Utilization of the demographic information by state and county
6. Community Impact and Involvement, sponsorships and educational programs.

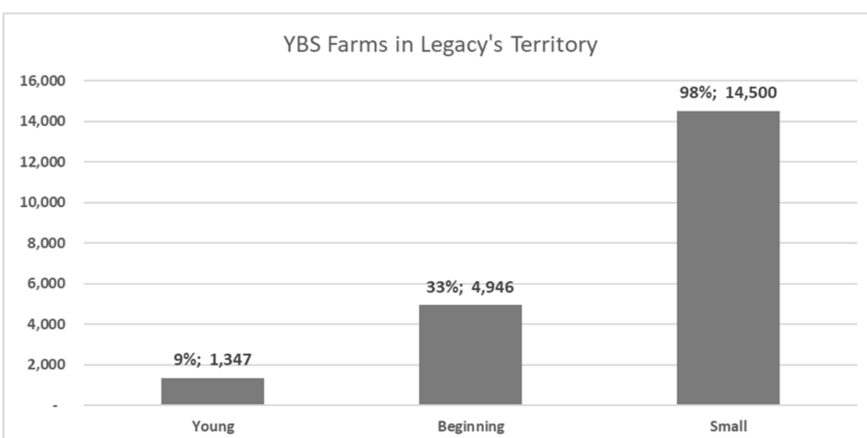
The results of these outreach and education programs are reported to the association board of directors on an annual basis.

USDA 2017 Census of Agricultural Data

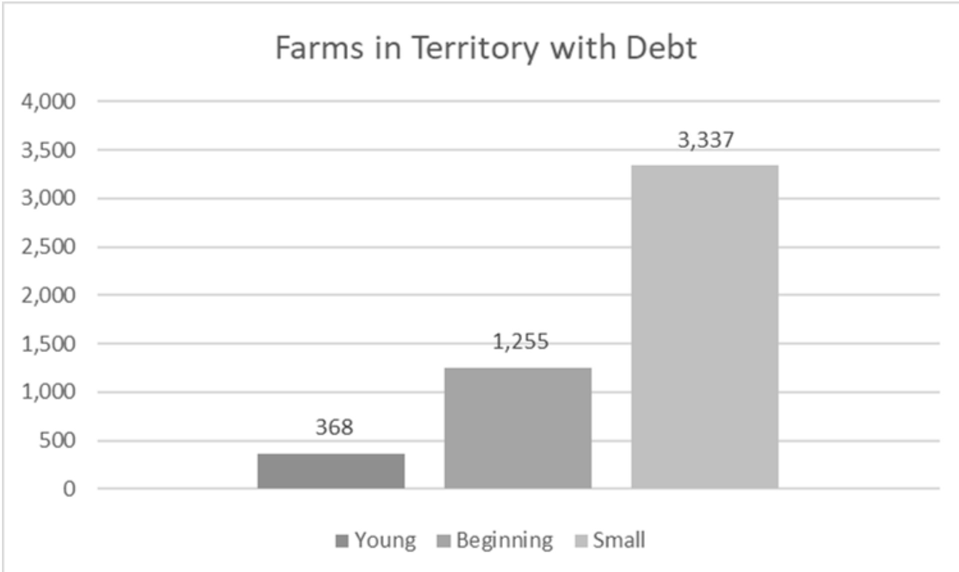
In April 2019 USDA published its 2017 Ag Census. The Census provides information about America's farms and ranches and those that operate them, including new data about on-farm decision making, down to the county level. Information collected directly from farmers and ranchers tells us that farm numbers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

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

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



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



Legacy's portfolio consisted of 1,648 loans as of December 31, 2022, 1,670 loans as of year-end 2021, and 1,544 loans as of year-end 2020. The table below represents Legacy's YBS concentrations as of year-end 2020, 2021 and 2022 based on the total number of loans in the portfolio.

	2022 Count / % of Total Portfolio		2021 Count /% of Total Portfolio		2020 Count /% of Total Portfolio	
Total YBS	1,215	73.7%	1,200	74.9%	1,165	78.1%
Young	199	12.1%	200	12.0%	199	12.9%
Beginning	802	48.7%	775	46.4%	724	46.9%
Small	1,172	71.1%	901	54.0%	924	59.8%

some loans may be included in multiple Y, B or S categories

Association Goals

Each year, the Board and Management establish quantitative targets in the business plan to measure and evaluate progress toward serving Young, Beginning and Small farmers and ranchers in our territory. The association's YBS loans, as a percentage of total loans outstanding at year-end, are reflected in the above table for the three (3) year period 2020-2022.

Based on the USDA 2017 Ag Census, there are additional lending opportunities to serve the YBS segment within the association's territory.

The association will continue its efforts to aggressively serve its marketplace. The association's has established a different growth goal for each segment based upon the current portfolio and 2017 census info. YBS categories are not mutually exclusive with borrowers meeting the definition for more than one (1) category for reporting purposes. The goals for the next three (3) years are based on a progressive sliding scale within each category with consideration given to the current percentage in the portfolio and most recent census data. The association is projecting YBS loans to increase but projecting the of total percent of YBS loans to decrease as loan growth is realized in non-YBS markets. Concerns about the economy and high start-up costs for ag operations are projected to keep YBS growth low during 2023. This will progressively improve as time brings stability to the economy and lowers the current high-cost barrier of entry in ag production. However, there should be some volume growth opportunities due to the higher cost of inputs and real estate as current producers continue to expand their operations and from recreational farmers entering the association's territory.

Legacy Ag Credit, ACA	Total	3 Year Projection		
By number of customers:	2022	2023	2024	2025
young farmers	199	205	211	217
beginning farmers	802	842	884	928
small farmers	1,172	1,231	1,293	1,358
As a percentage of total number of loans:	2022	2023	2024	2025
young farmers	12.1%	12.1%	11.8%	11.4%
beginning farmers	48.7%	49.7%	49.6%	48.8%
small farmers	71.1%	72.6%	72.5%	71.4%
Combined service to the YBS segment:	2022	2023	2024	2025
% of Total Number of Loans	73.7%	74.6%	74.8%	73.9%
% of Total Volume of Loans	68.5%	69.4%	69.1%	67.3%

The association will continue its efforts to aggressively serve its marketplace. Given the breakout of The Legacy Ag Credit portfolio and taking into consideration the large number of people migrating to the Legacy Ag Credit territory, the association's goal is to directly establish a targeted percent of the marketing budget to be used in the YBS effort. Historically the association spent an excess of 50% of the advertising and public relations budget on YBS activities/events, though this has not previously been a targeted metric. In 2023 the association would like to establish a goal to exceed 50% of the marketing budget towards YBS efforts with the intent to continually increase year over year. Marketing dollars will be targeted towards YBS borrowers and prospective borrowers. Continued enhancement of the association's visibility in the communities in which we serve, as well as direct marketing and communications, particularly to YBS farmers in our territory, will improve the association's ability to achieve its goals.

Targeted Focus

In addition to related services and ongoing outreach efforts, the association looks to have targeted focus through the following endeavors in 2023.

- YBS Coordinator

To maximize Legacy Ag Credit's relevance and awareness to the YBS audience, the association named Vice President/ Branch Manager Joseph Grier as the YBS coordinator. Joseph will work in conjunction with Marketing Manager Amy Rayzor and other staff members as needed to maximize the association's involvement with young, beginning and small farmers and ranchers.

- YBS Advisory Committee

The Legacy Ag Credit, Young, Beginning, and Small (YBS) Farmers Advisory Committee is to assist the association in fulfilling its responsibility in relation to developing, promoting, and marketing constructive credit and related services to Young, Beginning, and Small Farmers to sustain the future of agriculture, as well as educate farmers and establish Legacy Ag Credit as their lender of choice in the Northeast Texas area.

- Community Impact & Involvement

Legacy has a genuine passion for the rural communities we serve, and in an effort to better serve we strive to pay it forward as part of our Community Commitment. This commitment highlights our YBS community, giving back in the form of scholarships, grants, sponsorships, donations and more. We plan to continue growing those efforts with the expectation to spend over 83% of our marketing and public relation efforts focused on the YBS demographic.

- **Partnerships** – Legacy Ag Credit partners with many local community organizations that are doing remarkable things in our communities regarding agriculture, land stewardship, and education.

- **Youth Education, Scholarships, and Grants** – Legacy has implemented and continues to enhance programs that offer students education, support, scholarships and community grants available to local FFA and 4-H Chapters.

- **Association Donations & Sponsorship** - General community giving at the association level covers a wide array of opportunities and initiatives.

Related Services

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

- Workshops providing borrowers and local producers valuable information regarding farm planning and management, product marketing, and risk management.
- Credit Life Insurance and fee appraisal services.
- Allocation of additional time, from inquiry through closing, to assist qualified borrowers with real estate purchases.
- Recognition and allowance for circumstances unique to YBS applicants.
- Support of Federal and state sponsored guarantee programs for YBS borrowers.
- Facilitation of loan processing with Farm Service Agency and Texas Department of Agriculture.
- Create resource center to answer frequently asked questions and aid borrowers throughout the lending experience. Content will be created and distributed targeting the YBS sector.

Outreach to the YBS Segment

Important components of the association's YBS efforts include the emphasized outreach programs. The association has a long-standing belief that an investment in young producers, agricultural students and youth activities is important to the long-term success of the cooperative.

The association plans to continue outreach through continued participation in numerous local activities, such as:

- Co-sponsorship of a value-added workshops targeting young farmers and ranchers within the territory.

- Support and participation of career day events at local universities.

- Sponsorship of an association borrower for the annual Farm Credit Young Leaders Program, which gives current and future leaders insight into the ways Farm Credit supports agriculture.

- Participation in the Texas District membership and sponsorship program through FCBT, which supports various YBS statewide organizations and events.

- Supporting local 4-H and FFA chapter events.

- Sponsoring Texas AgriLife Extension Service events which provide training and address the needs of beginning farmers.

- Purchasing of livestock show animals.

- Supporting local agriculture endeavors including but not limited to hay shows, livestock shows, and rodeos.

- The association develops a comprehensive array of marketing efforts to include youth activities and events including livestock shows, 4-H and FFA events, young professional groups, and agricultural leadership opportunities. Search engine marketing through digital and keyword advertising is also an important means of educating and serving this demographic.

- Awarding scholarships to area youth involved in agriculture.

- Sponsoring local charitable and civic events.

- Continue efforts to establish a YBS Advisory Committee or obtain input from YBS borrowers in order to enhance association knowledge regarding the YBS sector.

Strategies

- A commitment of staff resources and expertise to effectively make and service loans and provide credit-related services to this group of farmers, ranchers and producers or harvesters of aquatic products.

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

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

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

- Utilization of USDA Farm Service Agency farm loan guarantee and financing programs to assist young, beginning, and small farmers.

- Increase utilization of the association's New Generation loan program. The association originated six (6) New Generation loans for a total of $1.3 million in 2022, more than a 500% increase above the stated goal. The 2023 goal is to close five (5) loans for a total of $500,000 in 2023.

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

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

- Opportunities to cooperate will include utilization of the association's New Generation Program, with coordinated efforts with USDA on its young, beginning, and small farmers participation programs.

- An annual report of the association's YBS loan related data is submitted to the Farm Credit Bank of Texas after each calendar year-end. The Farm Credit Bank of Texas compiles YBS data on a districtwide basis and submits to FCA and to the association Board of Directors. A summary capsule report of YBS loan-related statistics is provided to the association Board of Directors on a quarterly basis. Reporting to stockholders is contained in the annual report, which is completed during the first quarter of each calendar year for the preceding full calendar year.

- Monitor closely the clear lines of responsibility for YBS program implementation by loan officers. Additionally, track performance and results of the association's YBS Program and report quarterly to the association's board of directors.

- Utilize the YBS Advisory Committee and/or YBS borrower input and feedback to assist in the development of marketing and lending objectives to best reach the YBS demographic in our market and further meet the mission of the Farm Credit

System, to represent the association at agricultural events and meetings, to gain YBS influencers and advocates for Legacy in the communities we serve, to represent the YBS sector to the board, and to improve Legacy's ability to attract high quality YBS borrowers.

- A commitment of staff resources and expertise to effectively make and service loans and provide credit-related services to this group of farmers, ranchers and producers or harvesters of aquatic products. The association will look to the YBS Advisory Board for insight on developing expertise in meeting the special financing and related services needs of the YBS sector.