

Legacy

Ag Credit, ACA

ANNUAL REPORT 2023



Part of the Farm Credit System

Letter to Stockholders

On behalf of the board of directors and staff of Legacy Ag Credit, ACA (Legacy or Association), we are pleased to present our 2023 Annual Report and financial results.

Legacy is part of the Farm Credit System, which Congress formed in 1916 as a nationwide group of cooperative lending associations chartered to support the borrowing needs of U.S. agriculture, rural infrastructure and rural communities.

The Association recorded net income of \$5.4 million in 2023, a decrease of 5.1% from the \$5.6 million reported for 2022. Reduced Farm Credit Bank of Texas (FCBT) patronage income and rising interest rates resulting in weaker loan demand were primary reasons for the decrease in net income.

In mid-2023, FCBT announced it was revising its 2023 business plan. Citing losses in its capital markets loan portfolio, disappointing performance in investment and liquidity portfolios due to increasing interest rates, and capital ratio levels below goals established by its Board of Directors, the FCBT announced increases in its quarterly provision for loan losses, a downward forecast of net income for 2023, and limitations on its ability to pay patronage to its member-owned associations based on projected 2023 earnings. The reduction in Legacy's patronage equated to a decrease in Legacy's net income of approximately \$1.3 million in 2023.

Total assets were \$389.7 million on December 31, 2023, compared to \$376.4 million on December 31, 2022, a \$13.3 million or 3.5% increase due primarily to loan growth in 2023. Net loans outstanding totaled \$374.7 million on December 31, 2023, compared to \$362.7 million on December 31, 2022, a \$12.0 million or 3.3% increase. Members' equity was \$69.8 million on December 31, 2023, compared to \$67.8 million on December 31, 2022. On December 31, 2023, credit quality was acceptable on approximately 97.4% of the Association's loans.

Despite a decrease in earnings for 2023, Legacy's strong capital position and asset quality allowed the board of directors to approve a cash patronage of \$3.0 million, or 56% of net income, to be paid to our members in March 2024. The patronage program is a hallmark of our cooperative structure, returning a portion of the Association's annual profits to its members, and remains a priority to Legacy's board and management.

The Association's new Canton office building opened in February 2023. In addition, Legacy opened a new office location in the city of Marshall in the far eastern portion of its territory in mid-2023. Management and the Board believed there are additional diverse financing opportunities in the eastern portion of Legacy's territory and could include new opportunities in timber and timber-related loans.

Through its six offices located across 10 counties in northeast Texas, Legacy serves a diverse agricultural and rural market. In addition to the new loan opportunities in the eastern portion of its territory mentioned above, there is a substantial level of commercial poultry-related operations in the central part of the territory and Legacy finances a significant portion of that business. In the western portion of the territory, Kaufman County, where the Terrell office is located, is one of the top two fastest-growing counties in the state of Texas and has recently been one of the fastest-growing counties in the nation. Legacy believes there will continue to be opportunities to serve a growing agricultural and rural lifestyle lending market across its entire service area.

Legacy, like all Farm Credit associations, is committed to the future of agriculture, emphasizing meeting the needs of young, beginning, and small borrowers in our territory. Legacy proudly continued its scholarship program in 2023, awarding seven scholarships totaling \$20,000 to deserving high school students who are involved agriculture and committed to continuing their education. Legacy also awarded two, \$5,000 grants to local high school agricultural departments and 4-H groups.

Though we expect some continued economic challenges in 2024, including elevated interest rates, we remain focused on our mission and taking care of our customers, employees, and communities as we seek new opportunities for growth. We are fortunate to be in the state of Texas.

Thank you for your continued trust and support of Legacy; when we succeed, our members succeed. Please continue to share our story, stop by our offices, reach out when we can serve you, and please join us for our annual stockholder meeting on April 24, 2024, at 9:00 a.m. in our Sulphur Springs office.



Terry Milligan
Chairman, Board of Directors



Derrell W. Chapman, CPA
Chief Executive Officer

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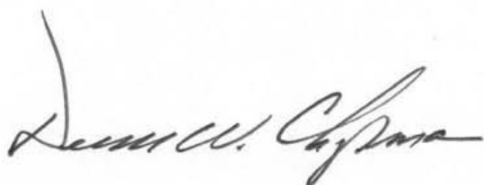
REPORT OF MANAGEMENT

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

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

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

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



Derrell W. Chapman, CPA, Chief Executive Officer
March 8, 2024



Terry Milligan, Chairman, Board of Directors
March 8, 2024



Heather Johnson, CPA, Chief Financial Officer
March 8, 2024

REPORT OF AUDIT COMMITTEE

The Audit Committee (Committee) is comprised of directors Cheryl Scott, Terry Milligan, Danny Evans, and Tommy Goodson. In 2023, 17 Committee meetings were held. 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 Ag Credit, ACA's website. The Committee approved the appointment of PwC as the Association's independent auditor for 2023.

Management is responsible for the Legacy's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements are prepared under the oversight of the Committee. PwC is responsible for performing an independent audit of Legacy 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 the Legacy's audited consolidated financial statements for the year ended December 31, 2023 (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's and the 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, 2023.

Audit Committee Members

Cheryl Scott, CPA, chair

Terry Milligan

Danny Evans

Tommy Goodson

March 8, 2024

LEGACY AG CREDIT, ACA

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
<u>Balance Sheet Data</u>					
<u>Assets</u>					
Cash	\$ 138	\$ 127	\$ 105	\$ 129	\$ 126
Loans	375,773	363,933	344,279	299,171	281,657
Less: allowance for credit losses on loans	1,095	1,243	1,417	1,173	1,245
Net loans	<u>374,678</u>	<u>362,690</u>	<u>342,862</u>	<u>297,998</u>	<u>280,412</u>
Investment in and receivable from FCBT	6,605	6,418	5,370	4,735	4,562
Other assets	8,262	7,126	5,657	5,162	3,887
Total assets	<u>\$ 389,683</u>	<u>\$ 376,361</u>	<u>\$ 353,994</u>	<u>\$ 308,024</u>	<u>\$ 288,987</u>
<u>Liabilities</u>					
Obligations with maturities of one year or less	\$ 1,566	\$ 2,215	\$ 2,131	\$ 1,554	\$ 1,717
Obligations with maturities greater than one year	318,275	306,350	286,948	243,375	226,308
Total liabilities	<u>319,841</u>	<u>308,565</u>	<u>289,079</u>	<u>244,929</u>	<u>228,025</u>
<u>Members' Equity</u>					
Capital stock and participation certificates	1,177	1,193	1,172	1,084	1,079
Unallocated retained earnings	68,596	66,543	63,742	62,004	59,857
Accumulated other comprehensive income (loss)	69	60	1	7	26
Total members' equity	<u>69,842</u>	<u>67,796</u>	<u>64,915</u>	<u>63,095</u>	<u>60,962</u>
Total liabilities and members' equity	<u>\$ 389,683</u>	<u>\$ 376,361</u>	<u>\$ 353,994</u>	<u>\$ 308,024</u>	<u>\$ 288,987</u>
<u>Statement of Income Data</u>					
Net interest income	\$ 10,910	\$ 9,985	\$ 9,048	\$ 8,153	\$ 8,108
(Provision for loan losses) loan loss reversal	205	100	(139)	85	61
Income from the Farm Credit Bank of Texas	1,128	2,178	1,872	1,409	1,129
Other noninterest income	825	575	827	487	286
Noninterest expense	(7,710)	(7,192)	(7,400)	(5,621)	(5,610)
Net income (loss)	<u>\$ 5,358</u>	<u>\$ 5,646</u>	<u>\$ 4,208</u>	<u>\$ 4,513</u>	<u>\$ 3,974</u>
<u>Key Financial Ratios for the Year</u>					
Return on average assets	1.4%	1.5%	1.3%	1.5%	1.4%
Return on average members' equity	7.9%	8.7%	6.7%	7.4%	6.7%
Net interest income as a percentage of average earning assets	3.0%	2.8%	2.9%	2.8%	2.9%
Net charge-offs (recoveries) as a percentage of average loans	0.002%	0.021%	-0.033%	-0.005%	.002%

LEGACY AG CREDIT, ACA

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

	2023	2022	2021	2020	2019
<u>Key Financial Ratios at Year End</u>					
Members' equity as a percentage of total assets	17.9%	18.0%	18.3%	20.5%	21.1%
Debt as a percentage of members' equity	457.9%	455.1%	445.3%	388.2%	374.0%
Allowance for credit losses on loans as a percentage of loans	0.3%	0.3%	0.4%	0.4%	0.4%
Common equity tier 1 ratio	18.4%	18.1%	19.0%	20.6%	21.4%
Tier 1 capital ratio	18.4%	18.1%	19.0%	20.6%	21.4%
Total capital ratio	18.7%	18.5%	19.5%	21.1%	21.9%
Permanent capital ratio	18.5%	18.1%	19.1%	20.7%	21.5%
Tier 1 leverage ratio	16.5%	16.3%	17.2%	18.9%	19.7%
UREE leverage ratio	16.2%	16.0%	18.2%	20.0%	20.8%
<u>Net Income Distribution</u>					
Cash dividends	\$ 3,231	\$ 2,846	\$ 2,470	\$ 2,400	\$ 2,300

The Association's ratios remained well above the regulatory minimums, including the conservation and leverage buffers at December 31, 2023. For more information, see Note 8, "Members' Equity," in the accompanying financial statements.

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

The following commentary explains management’s assessment of the principal aspects of the consolidated financial condition and results of operations of Legacy, including its wholly owned subsidiaries, Legacy, PCA and Legacy Land Bank, FLCA, for the years ended December 31, 2023, 2022 and 2021, 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 infrastructure, international and farm-related business sectors, as well as in the general economy, that can affect the availability of off-farm sources of income;
- weather-related, food safety, disease-related, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- disruption of operations or disclosures of confidential information as a result of cybersecurity incidents;
- changes in United States government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government and government-sponsored enterprises;
- actions taken by the Federal Reserve System in implementing monetary policy; and
- credit, interest rate, prepayment, and liquidity risk inherent in lending activities.

Significant Events:

Agricultural producers and processors were negatively affected by several factors in 2023, including high interest rates, 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.

In August of 2023, Legacy was part of the final three (3) district associations to migrate to FarmView. Even with three years of previous experience by the FCBT in managing conversions for other district association’s and despite extensive training for Association staff, the challenges of adapting to new loan processing and accounting systems impacted operations in 2023. Combined with new lending team members across all of Legacy’s retail operations in 2023, the challenges from the Farm View conversion stressed Legacy resources and negatively impacted its ability to achieve its goals for 2023.

Adoption of New Accounting Standard:

Effective January 1, 2023, the Association adopted the current expected credit losses (CECL) accounting guidance that replaced the incurred loss guidance. CECL established a single allowance framework for financial assets carried at amortized cost and certain off-balance sheet credit exposures. CECL 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. The adoption of this guidance resulted in a cumulative effect transition adjustment at January 1, 2023, reflecting an increase in the Association’s ACL of \$74,032 on outstanding loans and unfunded commitments and a corresponding decrease in retained earnings.

Refer to Note 2, “Summary of Significant Accounting Policies,” in the accompanying financial statements for disclosures of additional accounting pronouncements that might impact the Association’s consolidated financial position and results of operations and for critical accounting policies.

Patronage Refunds Received from Farm Credit Bank of Texas:

In December 2023, the Association received a direct note patronage of \$845,903 from FCBT, representing 27.34 basis points on the average daily balance of the Association’s direct loan with the Bank, approximately half the amount of historical patronage distributions. The Association received \$591,922 in the form of cash patronage, and \$253,681 was recognized as allocated equity. During 2023, the Association received \$212,911 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 \$69,116 from the Bank, representing 75 basis points on the Association’s average balance in a participation loan.

Patronage Refunds by Association:

In January 2024, Legacy declared a \$3,000,000 patronage for all members who had outstanding accrual loans with the Association during fiscal year 2023. The Association anticipates paying patronage in March 2024. Patronage totaled \$3,231,241 and \$2,846,000 for fiscal years 2022 and 2021, respectively.

Loan Portfolio:

The Association makes and services loans to farmers, ranchers, rural homeowners, and certain farm-related businesses. The Association’s loan volume consists of long-term farm mortgage loans, production and intermediate-term loans, and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed, adjustable, SOFR-based, and prime-based interest rates. Loan maturities range from one to 40 years, with annual operating loans comprising the majority of the commercial loans and 20- to 30-year maturities comprising the majority of the mortgage loans. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

The composition of the Association’s loan portfolio, including principal less funds held of \$375,772,990, \$363,932,965 and \$344,279,818 as of December 31, 2023, 2022 and 2021, respectively, is described more fully in detailed tables in Note 3, “Loans and Allowance for Credit Losses,” in the accompanying financial statements.

Risk Exposure:

Nonperforming assets include nonaccrual loans, accruing loans that are 90 days or more past due, and other property owned, net.

The following table illustrates the Association’s components and trends of nonperforming assets serviced for the prior three years as of December 31:

	Nonperforming Assets					
	2023		2022		2021	
	Amount	%	Amount	%	Amount	%
Nonaccrual loans	\$ 440,261	100.0%	\$ 3,032,482	78.5%	\$ 2,681,965	74.9%
Accruing loans 90 days or more past due	-	0.0%	833,006	21.5%	900,039	25.1%
Nonperforming assets	\$ 440,261	100.0%	\$ 3,865,488	100.0%	\$ 3,582,004	100.0%

At December 31, 2023, 2022 and 2021, nonperforming loans were \$440,261, \$3,865,488, and \$3,582,004, representing 0.1%, 1.1%, and 1.0% of loan volume, respectively. The association held no properties classified as other property owned at December 31, 2023, 2022, or 2021.

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.

To help mitigate and diversify credit risk, the Association has employed practices including securitization of loans, obtaining credit guarantees and engaging in loan participations.

Allowance for Credit Losses on Loans:

Effective January 1, 2023, the Association adopted the CECL accounting guidance for determining the allowance for credit losses, which employs a disciplined process and methodology to establish its allowance for credit losses on loans that has two basic components: first, an asset-specific component involving individual loans that do not share risk characteristics with other loans and the measurement of expected credit losses for such individual loans; and second, a pooled component for estimated expected credit losses for pools of loans that share similar risk characteristics. Prior to January 1, 2023, the allowance for credit losses was based on probable and estimable losses inherent in the loan portfolio.

Asset-specific loans are generally collateral-dependent loans (including those loans for which foreclosure is probable) and nonaccrual loans. For an asset-specific loan, expected credit losses are measured as the difference between the amortized cost basis in the loan and the present value of expected future cash flows discounted at the loan's effective interest rate except that, for collateral-dependent loans, credit loss is measured as the difference between the amortized cost basis in the loan and the fair value of the underlying collateral. The fair value of the collateral is adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral. In accordance with the Association's appraisal policy, the fair value of collateral-dependent loans is based upon independent third-party appraisals or on collateral valuations prepared by in-house appraisers. When an updated appraisal or collateral valuation is received, management reassesses the need for adjustments to the loan's expected credit loss measurements and, where appropriate, records an adjustment. If the calculated expected credit loss is determined to be permanent, fixed or non-recoverable, the credit loss portion of the loan will be charged off against the allowance for credit losses.

In estimating the component of the allowance for credit losses on loans that share common risk characteristics, loans are evaluated collectively and segregated into loan pools considering the risk associated with the specific pool. Relevant risk characteristics include loan type, commodity, credit quality rating, delinquency category or business segment or a combination of these classes. The allowance is determined based on a quantitative calculation of the expected life-of-loan loss percentage for each loan category by considering the probability of default, based on the migration of loans from performing to loss by credit quality rating or delinquency buckets using historical life-of-loan analysis periods for loan types, and the severity of loss, based on the aggregate net lifetime losses incurred per loan pool. Legacy's macroeconomic forecast includes a weighted selection of the Moody's Analytics baseline, upside 10th percentile and downside 90th percentile scenarios over a reasonable and supportable forecast period of two years. Subsequent to the forecast period, the Association reverts to long-run historical loss experiences over a one-year reversion period to inform the estimate of losses for the remaining contractual life of the loan portfolio. The economic forecasts incorporate macroeconomic variables, including the U.S. unemployment rate, Dow Jones Total Stock Market Index, and U.S. corporate bond spreads. The Association also considers loan and borrower characteristics, such as internal risk ratings, industry, government guarantees, and the remaining term of the loan, adjusted for expected prepayments.

Prior to January 1, 2023, the allowance for loan losses was maintained at a level considered adequate to provide for probable losses existing in and inherent in the loan portfolio. The allowance was based on a periodic evaluation of the loan portfolio in which numerous factors are considered, including economic conditions, collateral values, borrowers' financial conditions, loan portfolio composition, and prior loan loss experience. The allowance for loan losses encompassed various judgments, evaluations, and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity would cause these various judgments, evaluations, and appraisals to change over time. Management considered a number of factors in determining and supporting the levels of the allowances for loan losses, which include, but are 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, and weather-related influences.

Based upon ongoing risk assessment and the procedures outlined above, the allowance for credit losses on loans of \$1,095,402, \$1,243,348, and \$1,417,406 at December 31, 2023, 2022 and 2021, respectively, is considered adequate by management to compensate for losses in the loan portfolio at such dates.

Results of Operations:

The Association's net income for the year ended December 31, 2023, was \$5,358,194 as compared to \$5,646,471 for the year ended December 31, 2022, a decrease of \$288,277, or 5.1%. The Association's net income for the year ended December 31, 2022 was \$4,207,963, an increase of \$1,438,507, or 34.2%, compared to 2021.

Net interest income for 2023, 2022 and 2021 was \$10,910,255, \$9,985,399, and \$9,048,200, respectively, reflecting increases of \$924,856, or 9.3%, for 2023 over 2022 and \$937,199, or 10.4 %, for 2022 over 2021. 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:

	2023		2022		2021	
	Average Balance	Interest	Average Balance	Interest	Average Balance	Interest
Loans	\$366,339,494	\$ 20,921,016	\$ 358,843,323	\$ 17,230,277	\$ 317,990,286	\$ 14,503,745
Interest-bearing liabilities	309,544,877	10,010,761	302,747,571	7,244,878	263,080,111	5,455,545
Impact of capital	\$ 56,794,617		\$ 56,095,752		\$ 54,910,175	
Net interest income		\$ 10,910,255		\$ 9,985,399		\$ 9,048,200

	2023	2022	2021
	Average Yield	Average Yield	Average Yield
Yield on loans	5.71%	4.80%	4.56%
Cost of interest-bearing liabilities	3.23%	2.39%	2.07%
Interest rate spread	2.48%	2.41%	2.49%

	2023 vs. 2022			2022 vs. 2021		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income - loans	\$ 359,936	\$ 3,330,803	\$ 3,690,739	\$ 1,863,348	\$ 863,184	\$ 2,726,532
Interest expense	162,659	2,603,223	2,765,882	822,584	966,749	1,789,333
Net interest income	\$ 197,277	\$ 727,580	\$ 924,857	\$ 1,040,764	\$ (103,565)	\$ 937,199

Interest income for 2023 increased by \$3,690,739, or 21.4%, compared to 2022, primarily due to an increase in average yields on loans. Interest expense for 2023 increased by \$2,765,882, or 38.2%, compared to 2022 due to an increase in cost of interest-bearing liabilities. The interest rate spread increased by 7 basis points to 2.48% in 2023 from 2.41% in 2022, primarily due to an increase in average yields on loans that exceeded the increase in average cost of interest-bearing liabilities. The interest rate spread decreased by 8 basis points to 2.41% in 2022 from 2.49% in 2021, primarily due to an increase in the average cost of interest-bearing liabilities, which was partially offset by an increase in average yields on loans.

Noninterest income for 2023 decreased by \$799,118, or 29.0%, compared to 2022, due primarily to the \$1.3 million reduction in Legacy's direct note patronage from FCBT. Noninterest income for 2022 increased by \$53,817, or 2.0%, compared to 2021, due primarily to an increase in patronage income from FCBT.

Provisions for loan losses decreased by \$104,591, or 104.6%, compared to 2022, due primarily to payoffs of two capital market relationships 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 increased by \$518,606, or 7.2%, in 2023 compared to 2022 due to increases in salaries, benefits, occupancy costs for new facilities, advertising, and public and member relations.

For the year ended December 31, 2023, the Association's return on average assets was 1.4%, as compared to 1.5% and 1.3% for the years ended December 31, 2022 and 2021, respectively. For the year ended December 31, 2023, the Association's return on average members' equity was 7.9%, as compared to 8.7% and 6.7% for the years ended December 31, 2022 and 2021, respectively.

Because the Association depends on the Bank for funding, any significant positive or negative factors affecting the operations of the Bank may affect 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 \$317,332,782, \$305,607,123 and \$286,451,817 as of December 31, 2023, 2022 and 2021, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 3.23%, 2.39% and 2.07% at December 31, 2023, 2022 and 2021, 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, 2022, is due to increased loan volume. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$57,453,873, \$57,358,943 and \$56,498,722 at December 31, 2023, 2022 and 2021, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2023, was \$377,981,964 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, 2024, 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 2024. As borrower payments are received, they are applied to the Association's note payable to the Bank.

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

Capital Resources:

The Association's capital position remains strong, with total members' equity of \$69,842,306, \$67,795,984, and \$64,915,507 at December 31, 2023, 2022 and 2021, 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, 2023, 2022 and 2021 was 18.5%, 18.1%, and 19.1%, respectively.

Regulatory Matters:

At December 31, 2023, the Association was not under any written agreements with the Farm Credit Administration.

On January 13, 2023, FCA issued an advance notice of proposed rulemaking on the regulatory capital framework for Farmer Mac. The comment period ended on April 26, 2023.

On October 5, 2023, the Farm Credit Administration approved a final rule on cyber risk management that requires each System institution to develop and implement a comprehensive, written cyber risk management program. Each institution's cyber risk plan must require the institution to take the actions to assess internal and external risk factors, identify potential system and software vulnerabilities, establish a risk management program for the risks identified,

develop a cyber risk training program, set policies for managing third-party relationships, maintain robust internal controls and establish institution board reporting requirements. The final rule will become effective on January 1, 2025.

On October 12, 2023, FCA approved a final rule on young, beginning and small (YBS) farmer and rancher activity, effective February 1, 2024. The objectives of the rule are to expand the YBS activities of direct-lender associations to a diverse population of borrowers, to reinforce the supervisory responsibilities of the banks that fund the direct-lender associations, require the banks to annually review and approve the associations' YBS programs and to require each direct-lender association to enhance the strategic plan for its YBS program. FCA will transition to a new YBS reporting system in 2024 to provide a clearer picture of YBS lending by allowing the agency to better break down and categorize loan data.

Relationship With the Bank:

The Association's statutory obligation to borrow only from the Bank is discussed in Note 7, "Note Payable to the Bank," in the accompanying financial statements.

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

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis and in Note 7, "Note Payable to the Bank," in the accompanying consolidated financial statements.

The Bank provides computer systems to support the critical operations of District associations. In addition, each association has operating systems and facility-based systems that are not supported by the Bank. As disclosed in Note 11, "Related Party Transactions," in the accompanying financial statements, the Bank provides other services that the Association can utilize, such as administrative, marketing, information systems and accounting services. Additionally, the Bank bills District expenses to the District associations, such as the Farm Credit System Insurance Corporation insurance premiums.

Summary:

For more than 100 years, Legacy has continued to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the Association while offering competitive loan products that meet the financial needs of agricultural producers. Your continued support will be critical to the success of this Association.



Report of Independent Auditors

To the Board of Directors of Legacy Ag Credit, ACA

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, 2023, 2022 and 2021, 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, 2023, 2022 and 2021, 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.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the Association changed the manner in which it accounts for the allowance for credit losses in 2023. Our opinion is not modified with respect to this matter.

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 2023 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.



Austin, Texas
March 8, 2024

LEGACY AG CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	December 31,		
	2023	2022	2021
<u>Assets</u>			
Cash	\$ 138,043	\$ 127,481	\$ 104,802
Loans (includes \$357mm, \$328mm and \$341mm held at fair value)	375,772,990	363,932,965	344,279,818
Less: allowance for credit losses on loans	1,095,402	1,243,348	1,417,406
Net loans	374,677,588	362,689,617	342,862,412
Accrued interest receivable	2,436,348	1,808,462	1,188,891
Investment in and receivable from the Farm			
Credit Bank of Texas:			
Capital stock	6,173,070	6,016,770	5,192,520
Allocated Equity	253,681		
Other	178,118	401,341	177,250
Premises and equipment	5,605,940	5,076,354	4,276,339
Other assets	220,526	240,754	192,012
Total assets	\$ 389,683,314	\$ 376,360,779	\$ 353,994,226
<u>Liabilities</u>			
Note payable to the Farm Credit Bank of Texas	\$ 317,332,782	\$ 305,607,123	\$ 286,451,817
Advance conditional payments	1,000	-	1,433
Accrued interest payable	942,054	742,186	495,920
Drafts outstanding	43,222	454,833	178,325
Other liabilities	1,521,950	1,760,653	1,951,224
Total liabilities	319,841,008	308,564,795	289,078,719
<u>Members' Equity</u>			
Capital stock and participation certificates	1,176,510	1,192,520	1,171,860
Unallocated retained earnings	68,596,406	66,543,014	63,742,235
Accumulated other comprehensive income (loss)	69,390	60,450	1,412
Total members' equity	69,842,306	67,795,984	64,915,507
Total liabilities and members' equity	\$ 389,683,314	\$ 376,360,779	\$ 353,994,226

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2023	2022	2021
<u>Interest Income</u>			
Loans	\$ 20,921,016	\$ 17,230,277	\$ 14,503,745
<u>Interest Expense</u>			
Note payable to the Farm Credit Bank of Texas	10,010,564	7,244,878	5,455,545
Advance conditional payments	197	-	-
Net interest income	<u>10,910,255</u>	<u>9,985,399</u>	<u>9,048,200</u>
Provision for loan losses (loan loss reversal)	<u>(204,576)</u>	<u>(99,985)</u>	<u>139,199</u>
Net interest income after provision for losses (loan loss reversal)	<u>11,114,831</u>	<u>10,085,384</u>	<u>8,909,001</u>
<u>Noninterest Income</u>			
Income from the Farm Credit Bank of Texas:			
Patronage income	1,127,881	2,178,243	1,871,647
Loan fees	354,480	426,174	592,960
Refunds from Farm Credit System			
Insurance Corporation	164	-	-
Financially related services income	126	164	195
Gain on other property owned, net	50	-	-
Gain (loss) on sale of premises and equipment, net	393,419	(5,220)	94,693
Other noninterest income	77,577	153,454	139,503
Total noninterest income	<u>1,953,697</u>	<u>2,752,815</u>	<u>2,698,998</u>
<u>Noninterest Expenses</u>			
Salaries and employee benefits	4,578,407	4,374,319	4,833,427
Directors' expense	241,224	228,093	142,845
Purchased services	480,663	497,234	488,291
Travel	283,932	245,589	210,949
Occupancy and equipment	694,823	570,196	511,380
Communications	113,883	90,936	109,500
Advertising	159,185	143,814	231,262
Public and member relations	269,738	214,556	200,591
Supervisory and exam expense	138,931	124,984	112,219
Insurance Fund premiums	434,537	471,067	323,039
Other components of net periodic postretirement benefit cost	7,809	7,082	6,146
Other noninterest expense	307,202	223,858	230,385
Total noninterest expenses	<u>7,710,334</u>	<u>7,191,728</u>	<u>7,400,034</u>
NET INCOME	<u>5,358,194</u>	<u>5,646,471</u>	<u>4,207,965</u>
Other comprehensive income:			
Change in postretirement benefit plans	8,940	59,038	(5,575)
COMPREHENSIVE INCOME	<u>\$ 5,367,134</u>	<u>\$ 5,705,509</u>	<u>\$ 4,202,390</u>

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, 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 and allocated retained earnings 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
Capital stock/participation certificates issued	182,590			182,590
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
Cumulative effect of a change in accounting principle		(74,032)		(74,032)
Balance at January 1, 2023	1,192,520	66,468,982	60,450	67,721,952
Comprehensive income		5,358,194	8,940	5,367,134
Capital stock/participation certificates issued	146,800			146,800
Capital stock/participation certificates and allocated retained earnings retired	(162,810)			(162,810)
Patronage paid		(3,230,770)		(3,230,770)
Balance at December 31, 2023	\$ 1,176,510	\$ 68,596,406	\$ 69,390	\$ 69,842,306

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2023	2022	2021
Cash flows from operating activities:			
Net income	\$ 5,358,194	\$ 5,646,471	\$ 4,207,965
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses (loan loss reversal)	(204,576)	(99,985)	139,199
Depreciation	423,406	361,557	370,473
(Gain) loss on sale of premises and equipment, net	(393,419)	5,220	(94,692)
(Gain) loss on sale of other assets	(50)		
(Increase) decrease in accrued interest receivable	(627,886)	(619,571)	73,235
Decrease (increase) in other receivables from the Farm Credit Bank	223,223	(224,091)	(70,463)
Decrease (increase) in other assets	20,278	(48,742)	(29,967)
Increase in accrued interest payable	199,868	246,266	49,130
(Decrease) increase in other liabilities	(253,734)	(131,533)	515,575
Net cash provided by operating activities	<u>4,745,304</u>	<u>5,135,592</u>	<u>5,160,455</u>
Cash flows from investing activities:			
Increase in loans, net	(11,947,050)	(19,841,060)	(45,239,126)
Cash recoveries of loans previously charged off	6,569	3,600	114,670
Farm Credit Bank of Texas:			
Purchase of investment in	(156,300)	(824,250)	(564,525)
Allocated equity in	(253,681)		
Purchases of premises and equipment	(1,027,702)	(1,056,802)	(873,808)
Proceeds from sales of premises and equipment	575,154	250	180,860
Net cash used in investing activities	<u>(12,803,010)</u>	<u>(21,718,262)</u>	<u>(46,381,929)</u>

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2023	2022	2021
Cash flows from financing activities:			
Net draws on note payable to the Farm Credit Bank of Texas	11,725,659	19,155,306	43,524,082
(Decrease) increase in drafts outstanding	(411,611)	276,508	59,953
Increase (decrease) in advance conditional payments	1,000	(1,433)	(4,349)
Issuance of capital stock and participation certificates	146,800	182,590	280,130
Retirement of capital stock and participation certificates	(162,810)	(161,930)	(192,680)
Cash patronage paid	(3,230,770)	(2,845,692)	(2,469,972)
Net cash provided by financing activities	8,068,268	16,605,349	41,197,164
Net increase (decrease) in cash	10,562	22,679	(24,310)
Cash at the beginning of the year	127,481	104,802	129,112
Cash at the end of the year	\$ 138,043	\$ 127,481	\$ 104,802
 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	\$ 9,810,696	\$ 6,998,612	\$ 5,406,415

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 that 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, 2023, 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, 2023, 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 associations.

FCA regulations require borrower information to be held in strict confidence by Farm Credit institutions and 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 Farm Credit Act sets forth the types of authorized lending activity, people 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. The Bank’s Annual Report to Stockholders discusses the material aspects of the District’s financial condition, changes in financial condition and results of operations. In addition, the Bank’s Annual Report to Stockholders identified favorable and unfavorable trends, significant events, uncertainties, and the impact of activities of the Insurance Fund. Upon request, stockholders of the Association will be provided with the Bank’s 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: On January 1, 2023, the Association adopted the Financial Accounting Standards Board (FASB) guidance titled “Measurement of Credit Losses on Financial Instruments” and other subsequently issued accounting standards updates related to credit losses. This guidance replaced the current incurred loss impairment methodology with a single allowance framework that estimates the current expected credit losses (CECL) over the remaining contractual life for all financial assets measured at amortized cost and certain off-balance sheet credit exposures. This guidance is applied on a modified retrospective basis. This framework requires management to consider in its estimate of the allowance for credit losses (ACL) relevant historical events, current conditions, and reasonable and supportable forecasts that consider macroeconomic conditions. In addition, the guidance amends existing impairment guidance for held-to-maturity and available-for-sale investments to incorporate an allowance for credit losses related to these securities, which will allow for the reversal of credit impairments in the event that the credit of an issuer improves.

Also adopted effective January 1, 2023, was the updated guidance titled “Financial Instruments – Credit Losses: Troubled Debt Restructurings and Vintage Disclosure.” This guidance requires the creditor to determine whether a modification results in a new loan or a continuation of an existing loan, among other disclosures specific to modifications with borrowers that are experiencing financial difficulties. The update eliminated the accounting guidance for troubled debt restructurings by creditors. The update also requires disclosure of current period gross write-offs by year of origination for financing receivables and net investments in leases on a prospective basis.

The following table presents the balance sheet impact to the allowance for credit losses and capital upon adoption of this guidance on January 1, 2023:

	CECL adoption		
	January 1, 2023	impact	December 31, 2022
Assets:			
Allowance for credit losses on loans	\$ 1,278,136	\$ 34,788	\$ 1,243,348
Liabilities:			
Allowance for credit losses on unfunded commitments	\$ 39,244	\$ 39,244	\$ -
Retained earnings:			
Unallocated retained earnings, net of tax	\$ 66,468,982	\$ 74,032	\$ 66,543,014

In December 2022, the FASB issued an update titled "Reference Rate Reform - Deferral of the Sunset Date of Topic 848." In March 2020, the FASB issued guidance titled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting (Reference Rate Reform)." The guidance provided 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)). At the time the update was issued, the expectation was that LIBOR would cease to be published after December 31, 2021.

In January 2021, the FASB issued an update to Reference Rate Reform whereby certain derivative instruments could be modified to change the rate used for margining, discounting, or contract price alignment. An entity could 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, 2021, 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 did not apply to contract modifications made or new hedging relationships entered into after December 31, 2023, and existing hedging relationships evaluated for effectiveness in periods after December 31, 2022.

Subsequent to the issuance of the January 2021 update, it was announced that the intended cessation date for various tenors of LIBOR would be September 30, 2023, thus necessitating the update to the sunset date. The amendments in the current update defer the sunset date from December 31, 2022 to December 31, 2024, after which entities will no longer be permitted to apply the relief.

In March 2022, the FASB issued an update titled "Derivatives and Hedging: Fair Value Hedging – Portfolio Layer Method." Under current guidance, the last-of-layer method enables an entity to apply fair value hedging to a stated amount of a closed portfolio of prepayable financial assets (or one or more beneficial interests secured by a portfolio of prepayable financial instruments) without having to consider prepayment risk or credit risk when measuring those assets. This guidance will allow entities to apply the portfolio layer method to portfolios of all financial assets, including both prepayable and nonprepayable financial assets. This scope expansion is consistent with the FASB's efforts to simplify hedge accounting and allows entities to apply the same method to similar hedging strategies. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. The adoption of this guidance did not impact the Association's financial condition or results of operation as the System does not have a current derivative hedging strategy in which the last-of-layer method is used.

- B. Cash: Cash, as included in the financial statements, represents cash on hand and deposits at banks.
- C. Loans and Allowance for Credit Losses on Loans: 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.

Nonaccrual Loans. Nonaccrual loans are loans for which there is reasonable doubt that all principal and interest will not be collected according to the original contractual terms and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. 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 modified 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.

Consistent with prior practice, 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 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. At the time 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 credit losses on loans (if accrued in prior years). Loans are charged off at the time they are determined to be uncollectible.

When loans are in nonaccrual status, interest payments received in cash are recognized as interest income if collectability of the loan is fully expected and certain other criteria are met. Otherwise, payments received are applied against the recorded investment in the loan. Nonaccrual loans are returned to accrual status if all contractual principal and interest are current, the borrower has demonstrated payment performance, and collection is fully expected to fulfill the contractual repayments terms and after remaining current as to principal and interest for a sustained period or have a recent repayment pattern demonstrating future repayment capacity to make on-time 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 should first be recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

Accrued Interest Receivable. The Association elected to continue classifying accrued interest on loans and investment securities in accrued interest receivable and not as part of loans or investments on the Balance Sheet. The Association has also elected to not estimate an allowance on interest receivable balances, because the nonaccrual policies in place provide for the accrual of interest to cease on a timely basis when all contractual amounts are not expected.

Loan Modifications to Borrowers Experiencing Financial Difficulty. Loan modifications may be granted to borrowers experiencing financial difficulty. Modifications can be in the form of one or a combination of principal forgiveness, interest rate reduction, other-than-insignificant payment delay, or a term extension. Covenant waivers and modifications of contingent acceleration clauses are not considered term extensions.

Collateral Dependent Loans. Collateral dependent loans are loans secured by collateral, including but not limited to agricultural real estate, crop inventory, equipment, and livestock. CECL requires an entity to measure the expected credit losses based on fair value of the collateral at the reporting date when the entity determines that foreclosure is probable. Additionally, CECL allows a fair value practical expedient as a measurement approach for loans when the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulties. Under the practical expedient measurement approach, the expected credit losses are based on the difference between the fair value of the collateral less estimated costs to sell and the amortized cost basis of the loan.

Allowance for Credit Losses. Effective January 1, 2023, the ACL represents the estimated current expected credit losses over the remaining contractual life of financial assets measured at amortized cost and certain off-balance sheet credit exposures. The ACL takes into consideration relevant information about past events, current conditions and reasonable and supportable macroeconomic forecasts of future conditions. The contractual term excludes expected extensions, renewals and modifications unless the extension or renewal options are not unconditionally cancelable. The ACL comprises:

- the allowance for credit losses on loans (ACLL), which covers the loan portfolio and is presented separately on the Balance Sheet;
- the allowance for credit losses on unfunded commitments, which is presented on the Balance Sheet in other liabilities; and
- the allowance for credit losses on investment securities, which covers held-to-maturity and available-for-sale securities and is recognized within each investment securities classification on the Balance Sheet.

Determining the appropriateness of the ACL is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio considering macroeconomic

conditions, forecasts, and other factors prevailing at the time may result in significant changes in the ACL in those future periods.

Allowance for Credit Losses on Loans. The ACLL represents management's estimate of credit losses over the remaining expected life of loans. Loans are evaluated on the amortized cost basis, including premiums, discounts, and fair value hedge accounting adjustments. The expected life of a loan is determined based on the contractual term of the loan, anticipated prepayment rates, cancellation features, and certain extension and call options. The ACLL is estimated using a probability of default (PD) and loss given default (LGD) model wherein impairment is calculated by multiplying the PD (probability the loan will default in a given timeframe) by the LGD (percentage of the loan expected to be collected at default).

The Association employs a disciplined process and methodology to establish its ACLL that has two basic components: first, an asset-specific component involving individual loans that do not share risk characteristics with other loans and the measurement of expected credit losses for such individual loans; and second, a pooled component for estimated expected credit losses for pools of loans that share similar risk characteristics.

Asset-specific loans are generally collateral-dependent loans (including those loans for which foreclosure is probable) and nonaccrual loans. For an asset-specific loan, expected credit losses are measured as the difference between the amortized cost basis in the loan and the present value of expected future cash flows discounted at the loan's effective interest rate except that, for collateral-dependent loans, credit loss is measured as the difference between the amortized cost basis in the loan and the fair value of the underlying collateral. The fair value of the collateral is adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral. When an updated appraisal or collateral valuation is received, management reassesses the need for adjustments to the loan's expected credit loss measurements and, where appropriate, records an adjustment. If the calculated expected credit loss is determined to be permanent, fixed or non-recoverable, the credit loss portion of the loan will be charged off against the allowance for credit losses.

In estimating the component of the ACLL that share common risk characteristics, loans are evaluated collectively and segregated into loan pools considering the risk associated with the specific pool. Relevant risk characteristics include loan type and credit quality rating, or a combination of these classes. The allowance is determined based on a quantitative calculation of the expected life-of-loan loss percentage for each loan category by considering the probability of default, based on the migration of loans from performing to loss by credit quality rating, and the severity of loss, based on the aggregate net lifetime losses incurred per loan pool.

The ACLL also considers factors for each loan pool to adjust for differences between the historical period used to calculate historical default and loss severity rates and expected conditions over the remaining lives of the loans in the portfolio related to:

- lending policies and procedures;
- national, regional and local economic business conditions and developments that affect the collectability of the portfolio, including the condition of various markets;
- the nature of the loan portfolio, including the terms of the loans;
- the experience, ability and depth of the lending management and other relevant staff;
- the volume and severity of past due and adversely classified or graded loans and the volume of nonaccrual loans;
- the quality of the loan review and process;
- the value of underlying collateral for collateral-dependent loans;
- the existence and effect of any concentrations of credit and changes in the level of such concentrations; and
- the effect of external factors such as competition and legal and regulatory requirements on the level of credit losses in the existing portfolio.

The Association's macroeconomic forecast includes a weighted selection of the baseline, upside 10th percentile and downside 90th percentile from third party economic scenarios over a reasonable and supportable forecast period of two years. Subsequent to the forecast period, the Association reverts to long-run historical loss experience over a one-year reversion period to inform the estimate of losses for the remaining contractual life of the loan portfolio.

The economic forecasts, which are updated quarterly, incorporate macroeconomic variables, including the U.S. unemployment rate, Dow Jones Total Stock Market Index, and U.S. corporate bond spreads. The Bank also considers loan and borrower characteristics, such as internal risk ratings, industry, and the remaining term of the loan, adjusted for expected prepayments.

In addition to the quantitative calculation, the Association considers the imprecision inherent in the process and methodology, emerging risk assessments and other subjective factors, which may lead to a management adjustment to the modeled ACLL results. Expected credit loss estimates also include consideration of expected cash recoveries on loans previously charged off or expected recoveries on collateral dependent loans where recovery is expected through sale of the collateral. The economic forecasts are updated on a quarterly basis.

Prior to January 1, 2023, the allowance for loan losses was maintained at a level considered adequate to provide for probable losses existing in and inherent in the loan portfolio. The allowance was based on a periodic evaluation of the loan portfolio in which numerous factors are considered, including economic conditions, collateral values, borrowers' financial conditions, loan portfolio composition, and prior loan loss experience. The allowance for loan losses encompassed various judgments, evaluations, and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity would cause these various judgments, evaluations, and appraisals to change over time. Management considered a number of factors in determining and supporting the levels of the allowances for loan losses, which include, but are 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, and weather-related influences.

Allowance for Credit Losses on Unfunded Commitments. The Association evaluates the need for an allowance for credit losses on unfunded commitments under CECL and, if required, an amount is recognized and included in other liabilities on the Condensed Combined Statement of Condition. The amount of expected losses is determined by calculating a commitment usage factor over the contractual period for exposures that are not unconditionally cancellable by the institution and applying the loss factors used in the ACLL methodology to the results of the usage calculation. No allowance for credit losses is recorded for commitments that are unconditionally cancellable.

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

- G. **Employee Benefit Plans:** Substantially all employees of the Association may be eligible to 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, 2023, made on their behalf into various investment alternatives.

The structure of the District’s DB plan is characterized as multi-employer, because 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 \$180,423, \$183,338 and \$164,127 for the years ended December 31, 2023, 2022 and 2021 respectively. For the DB plan, the Association recognized pension costs of \$14,382, \$25,160 and \$38,625 for the years ended December 31, 2023, 2022 and 2021, 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 \$136,283, \$138,404 and \$126,729 for the years ended December 31, 2023, 2022 and 2021, 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.

- H. **Income Taxes:** The ACA holding company conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are operated through the wholly owned FLCA subsidiary, which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through the wholly owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income tax. The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. 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.
- I. **Patronage Refunds From the Farm Credit Bank of Texas:** The Association records patronage refunds from the Bank on an accrual basis.
- J. **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 12, "Fair Value Measurements."

- K. 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 CREDIT LOSSES ON LOANS:

A summary of loans as of December 31 follows:

Loan Type	2023		2022		2021	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 316,952,280	84.3%	\$ 308,324,835	84.8%	\$ 284,813,145	82.8%
Agribusiness:					3,172,038	0.9%
Processing and marketing	15,356,382	4.1%	16,158,542	4.4%		
Loans to cooperatives	2,567,359	0.7%	4,584,393	1.3%	3,122,997	0.9%
Farm-related business	2,475,307	0.7%	2,275,713	0.6%	13,434,786	3.9%
Production and intermediate-term	13,782,434	3.7%	10,867,818	3.0%	17,597,455	5.1%
Rural residential real estate	10,237,682	2.7%	9,261,897	2.5%	2,799,587	0.8%
Communication	8,631,222	2.3%	7,224,417	2.0%	7,366,411	2.1%
Water and waste-water	2,985,247	0.8%	1,998,630	0.5%	4,866,302	1.4%
Energy	2,785,077	0.7%	3,236,720	0.9%	7,107,097	2.1%
Total	\$ 375,772,990	100.0%	\$ 363,932,965	100.0%	\$ 344,279,818	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, 2023:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Real estate mortgage	\$ 26,441,980	\$ 9,292,852	\$ -	\$ -	\$ 26,441,980
Production and intermediate-term	4,769,658	-	-	-	4,769,658	-
Agribusiness	20,168,204	-	-	-	20,168,204	-
Communication	8,631,222	-	-	-	8,631,222	-
Energy	2,785,077	-	-	-	2,785,077	-
Water and waste-water	2,985,247	-	-	-	2,985,247	-
Total	\$ 65,781,388	\$ 9,292,852	\$ -	\$ -	\$ 65,781,388	\$ 9,292,852

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	2023	2022	2021
Van Zandt	10.8%	12.5%	11.7%
Hopkins	7.9%	10.3%	11.3%
Wood	6.8%	8.4%	9.6%
Upshur	5.1%	6.2%	7.0%
Kaufman	5.0%	8.6%	7.8%
Gregg	3.9%	0.6%	0.5%
Harrison	3.0%	4.2%	4.0%
Franklin	2.3%	3.8%	3.4%
Marion	0.9%	1.7%	1.7%
Rains	0.8%	2.0%	2.4%
Other	53.5%	41.7%	40.6%
Totals	100.0%	100.0%	100.0%

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

Operation/Commodity	2023		2022		2021	
	Amount	%	Amount	%	Amount	%
Livestock, except dairy and poultry	\$106,476,415	28.4%	\$104,962,318	28.8%	\$ 97,435,380	28.3%
Poultry and eggs	\$ 95,302,739	25.4%	91,877,843	25.2%	91,500,864	26.6%
General farms, primarily crops	48,378,633	12.9%	806,000	0.2%	841,706	0.2%
Hunting, trapping and game propagation	37,948,265	10.1%	33,154,172	9.1%	24,786,423	7.2%
Timber	14,801,050	4.0%	21,369,171	5.9%	21,927,503	6.4%
Rural home loans	11,761,219	3.1%	9,839,793	2.7%	8,019,596	2.3%
Communication	8,631,222	2.3%	7,224,417	2.0%	7,107,097	2.1%
Animal specialties	8,304,421	2.2%	7,129,179	2.0%	5,394,243	1.6%
Other	6,865,040	1.8%	752,409	0.2%	-	0.0%
Paper and allied products	5,413,557	1.4%	5,194,449	1.4%	4,394,367	1.3%
Fruit and tree nuts	5,045,887	1.3%	5,086,259	1.4%	4,170,048	1.2%
Food and kindred products	4,801,690	1.3%	6,373,599	1.8%	5,732,542	1.7%
Wholesale trade - nondurable goods	4,722,617	1.3%	4,902,280	1.3%	7,887,250	2.3%
Dairy farms	3,876,429	1.0%	1,667,303	0.5%	2,025,163	0.6%
Horticultural specialties	3,174,933	0.8%	221,844	0.1%	129,431	0.0%
Electric services	2,785,077	0.8%	3,236,720	0.9%	4,866,302	1.4%
Field crops except cash grains	2,693,361	0.7%	52,291,307	14.4%	49,800,257	14.4%
Chemical and allied products	2,244,463	0.6%	2,275,713	0.6%	3,122,997	0.9%
Agricultural services	1,214,389	0.3%	1,247,395	0.3%	1,321,450	0.4%
Building materials, hardware and garden supplies	541,984	0.1%	597,210	0.2%	658,966	0.2%
Farm and garden machinery equipment	376,944	0.1%	236,755	0.1%	264,450	0.1%
Real estate	355,365	0.1%	63,321	0.0%	66,970	0.0%
Vegetables and melons	57,290	0.0%	63,548	0.0%	102,395	0.0%
Forestry services	-	0.0%	-	0.0%	47,700	0.0%
Water Supply	-	0.0%	1,998,630	0.5%	1,997,785	0.6%
Metal Cans	-	0.0%	1,113,971	0.3%	419,361	0.1%
General farms, primarily livestock	-	0.0%	247,358	0.1%	259,572	0.1%
Total	\$375,772,990	100.0%	\$363,932,964	100.0%	\$ 344,279,818	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.

Credit Quality

Credit risk arises from the potential inability of an obligor to meet its payment obligation and exists in our outstanding loans, letters of credit, and unfunded loan commitments. The entity manages credit risk associated with the retail lending activities through an analysis of the credit risk profile of an individual borrower using its own set of underwriting standards and lending policies, approved by its board of directors, which provides direction to its loan officers. The retail credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, financial position, and collateral, which includes an analysis of credit scores for smaller loans. Repayment capacity focuses on the borrower's ability to repay the loan based on cash flows from operations or other sources of income, including off-farm income. Real estate mortgage loans must be secured by first liens on the real estate (collateral). As required by Farm Credit Administration regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85% of the original appraised value of the property taken as security or up to 97% of the appraised value if guaranteed

by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Loans other than real estate mortgage may be made on a secured or unsecured basis.

The entity uses a two-dimensional risk rating model based on an internally generated combined System risk rating guidance that incorporates a 14-point probability of default rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default. Probability of default is the probability that a borrower will experience a default during the life of the loan. The loss given default is management's estimate as to the anticipated principal loss on a specific loan assuming default occurs during the remaining life of the loan. 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 or the loan is classified nonaccrual. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses and risks in a particular relationship. The institution reviews, at least on an annual basis, or when a credit action is taken the probability of default category.

Each of the probability of default categories carries a distinct percentage of default probability. The probability of default rate between one and nine of the acceptable categories is very narrow and would reflect almost no default to a minimal default percentage. The probability of default rate grows more rapidly as a loan moves from acceptable to other assets especially mentioned 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. These 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, or collateral pledged on the loan,
- doubtful — assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing facts, conditions, and values that make collection in full highly questionable, and
- loss — assets are considered uncollectible.

The following table presents credit quality indicators by loan type and the related principal balance as of December 31, 2023:

	Term Loans Amortized Cost by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
	2023	2022	2021	2020	2019	Prior			
Real estate mortgage									
Acceptable	\$ 45,009,556	\$ 60,394,327	\$ 71,211,194	\$ 40,765,375	\$ 24,928,326	\$ 66,424,123	\$ -	\$ -	\$ 308,732,901
OAEM	2,646,437	1,817,210	-	262,498	-	701,228	2,147,061	-	7,574,434
Substandard/Doubtful	-	-	-	-	-	644,945	-	-	644,945
	<u>\$ 47,655,993</u>	<u>\$ 62,211,537</u>	<u>\$ 71,211,194</u>	<u>\$ 41,027,873</u>	<u>\$ 24,928,326</u>	<u>\$ 67,770,296</u>	<u>\$ 2,147,061</u>	<u>\$ -</u>	<u>\$ 316,952,280</u>
Production and intermediate-term									
Acceptable	\$ 4,222,371	\$ 392,770	\$ 184,289	\$ 139,164	\$ 102,939	\$ 229,633	\$ 7,559,985	\$ 51,200	\$ 12,882,351
OAEM	891,588	-	-	-	-	8,495	-	-	900,083
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>\$ 5,113,959</u>	<u>\$ 392,770</u>	<u>\$ 184,289</u>	<u>\$ 139,164</u>	<u>\$ 102,939</u>	<u>\$ 238,128</u>	<u>\$ 7,559,985</u>	<u>\$ 51,200</u>	<u>\$ 13,782,434</u>
Agribusiness									
Acceptable	\$ 5,629,304	\$ 6,859,834	\$ 3,049,716	\$ 2,244,463	\$ 800,000	\$ -	\$ 1,318,899	\$ -	\$ 19,902,216
OAEM	-	373,253	-	-	-	-	123,579	-	496,832
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>\$ 5,629,304</u>	<u>\$ 7,233,087</u>	<u>\$ 3,049,716</u>	<u>\$ 2,244,463</u>	<u>\$ 800,000</u>	<u>\$ -</u>	<u>\$ 1,442,478</u>	<u>\$ -</u>	<u>\$ 20,399,048</u>
Communications									
Acceptable	\$ 3,060,056	\$ -	\$ -	\$ 5,502,741	\$ -	\$ -	\$ 68,425	\$ -	\$ 8,631,222
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>\$ 3,060,056</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,502,741</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,425</u>	<u>\$ -</u>	<u>\$ 8,631,222</u>
Energy									
Acceptable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,631,678	\$ 153,399	\$ -	\$ 2,785,077
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,631,678</u>	<u>\$ 153,399</u>	<u>\$ -</u>	<u>\$ 2,785,077</u>
Water and waste-water									
Acceptable	\$ 985,772	\$ -	\$ -	\$ -	\$ -	\$ 1,999,475	\$ -	\$ -	\$ 2,985,247
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>\$ 985,772</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,999,475</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,985,247</u>
Rural residential real estate									
Acceptable	\$ 1,383,801	\$ 2,851,696	\$ 3,138,399	\$ 1,807,092	\$ 268,521	\$ 788,173	\$ -	\$ -	\$ 10,237,682
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>\$ 1,383,801</u>	<u>\$ 2,851,696</u>	<u>\$ 3,138,399</u>	<u>\$ 1,807,092</u>	<u>\$ 268,521</u>	<u>\$ 788,173</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,237,682</u>
Total Loans									
Acceptable	\$ 60,290,860	\$ 70,498,627	\$ 77,583,598	\$ 50,458,835	\$ 26,099,786	\$ 72,073,082	\$ 9,100,708	\$ 51,200	\$ 366,156,696
OAEM	3,538,025	2,190,463	-	262,498	-	709,723	2,270,640	-	8,971,349
Substandard/Doubtful	-	-	-	-	-	644,945	-	-	644,945
	<u>\$ 63,828,885</u>	<u>\$ 72,689,090</u>	<u>\$ 77,583,598</u>	<u>\$ 50,721,333</u>	<u>\$ 26,099,786</u>	<u>\$ 73,427,750</u>	<u>\$ 11,371,348</u>	<u>\$ 51,200</u>	<u>\$ 375,772,990</u>

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, 2023, 2022 and 2021:

	<u>2023</u>		<u>2022</u>		<u>2021</u>	
Real estate mortgage						
Acceptable	97.4	%	99.0	%	98.7	%
OAEM	2.4	%	0.4	%	0.5	%
Substandard/doubtful	0.2	%	0.6	%	0.8	%
	<u>100.0</u>	%	<u>100.0</u>	%	<u>100.0</u>	%
Production and intermediate term						
Acceptable	93.5	%	99.9	%	98.4	%
OAEM	6.5	%	0.1	%	0.1	%
Substandard/doubtful	-	%	-	%	1.5	%
	<u>100.0</u>	%	<u>100.0</u>	%	<u>100.0</u>	%
Loans to cooperatives						
Acceptable	100.0	%	100.0	%	100.0	%
OAEM	-	%	-	%	-	%
Substandard/doubtful	-	%	-	%	-	%
	<u>100.0</u>	%	<u>100.0</u>	%	<u>100.0</u>	%
Processing and marketing						
Acceptable	96.8	%	92.4	%	100.0	%
OAEM	3.2	%	-	%	-	%
Substandard/doubtful	-	%	7.6	%	-	%
	<u>100.0</u>	%	<u>100.0</u>	%	<u>100.0</u>	%
Farm-related business						
Acceptable	100.0	%	100.0	%	100.0	%
OAEM	-	%	-	%	-	%
Substandard/doubtful	-	%	-	%	-	%
	<u>100.0</u>	%	<u>100.0</u>	%	<u>100.0</u>	%
Communication						
Acceptable	100.0	%	100.0	%	100.0	%
OAEM	-	%	-	%	-	%
Substandard/doubtful	-	%	-	%	-	%
	<u>100.0</u>	%	<u>100.0</u>	%	<u>100.0</u>	%
Energy						
Acceptable	100.0	%	91.7	%	79.5	%
OAEM	-	%	-	%	-	%
Substandard/doubtful	-	%	8.3	%	20.5	%
	<u>100.0</u>	%	<u>100.0</u>	%	<u>100.0</u>	%
Water and waste-water						
Acceptable	100.0	%	100.0	%	100.0	%
OAEM	-	%	-	%	-	%
Substandard/doubtful	-	%	-	%	-	%
	<u>100.0</u>	%	<u>100.0</u>	%	<u>100.0</u>	%
Rural residential real estate						
Acceptable	100.0	%	100.0	%	100.0	%
OAEM	-	%	-	%	-	%
Substandard/doubtful	-	%	-	%	-	%
	<u>100.0</u>	%	<u>100.0</u>	%	<u>100.0</u>	%
Total Loans						
Acceptable	97.4	%	98.7	%	98.5	%
OAEM	2.4	%	0.4	%	0.4	%
Substandard/doubtful	0.2	%	0.9	%	1.1	%
	<u>100.0</u>	%	<u>100.0</u>	%	<u>100.0</u>	%

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized, and the Association's exposure to credit loss

associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

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.

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

	December 31, 2023	December 31, 2022	December 31, 2021
Nonaccrual loans:			
Real estate mortgage	\$ 440,261	\$ 1,531,950	\$ 1,530,827
Production and intermediate-term	-	-	152,020
Agribusiness	-	1,230,368	-
Energy	-	270,164	999,118
Total nonaccrual loans	<u>440,261</u>	<u>3,032,482</u>	<u>2,681,965</u>
Accruing loans 90 days or more past due:			
Real estate mortgage	-	833,006	900,039
Total nonperforming assets	<u>\$ 440,261</u>	<u>\$ 3,865,488</u>	<u>\$ 3,582,004</u>

The following table provides the amortized cost for nonaccrual loans with and without a related allowance for loan losses, as well as interest income recognized on nonaccrual during the period:

	December 31, 2023			Interest Income Recognized For the Year Ended December 31, 2023
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	
Nonaccrual loans:				
Real estate mortgage	\$ -	\$ 440,261	\$ 440,261	\$ 111,928
Production and intermediate-term	-	-	-	49,537
Agribusiness	-	-	-	1,847
Total nonaccrual loans	<u>\$ -</u>	<u>\$ 440,261</u>	<u>\$ 440,261</u>	<u>\$ 163,312</u>

The following tables provide an aging analysis of past due loans at amortized cost by portfolio segment as of December 31, 2023:

December 31, 2023:	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	\$ 2,130,621	\$ -	\$ 2,130,621	\$ 316,896,424	\$ 319,027,045	\$ -
Production and intermediate-term	-	-	-	13,965,427	13,965,427	-
Loans to cooperatives	-	-	-	2,575,352	2,575,352	-
Processing and marketing	-	-	-	15,393,229	15,393,229	-
Farm-related business	-	-	-	2,493,419	2,493,419	-
Communication	-	-	-	8,664,344	8,664,344	-
Energy	-	-	-	2,795,324	2,795,324	-
Water and waste-water	-	-	-	3,017,809	3,017,809	-
Rural residential real estate	-	-	-	10,277,389	10,277,389	-
Total	<u>\$ 2,130,621</u>	<u>\$ -</u>	<u>\$ 2,130,621</u>	<u>\$ 376,078,717</u>	<u>\$ 378,209,338</u>	<u>\$ -</u>

Prior to the adoption of CECL, the aging analysis of past due loans reported included accrued interest as follows:

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	\$ 308,829,510	\$ 309,860,414	\$ -
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 waste-water	-	-	-	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	\$ 364,201,674	\$ 365,741,427	\$ -

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	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 waste-water	-	-	-	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	\$ -

A loan is considered collateral dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The collateral dependent loans are primarily agribusiness and energy loans.

Loan Modifications to Borrowers Experiencing Financial Difficulties

Upon adoption of the CECL accounting guidance, creditors are required to disclose specific modifications with borrowers that are experiencing financial difficulty. The Association did not materially modify any loans with borrowers experiencing financial difficulty during the year ended December 31, 2023.

Troubled Debt Restructurings

Prior to January 1, 2023, the adoption of updated FASB guidance on loan modifications, a restructuring of a loan constituted a troubled debt restructuring, also known as formally restructured, if the creditor for economic or legal reasons related to the borrower's financial difficulties granted a concession to the borrower that it would not otherwise consider. Concessions varied by program and were borrower-specific and could include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may have been forgiven. When a restructured loan constituted a troubled debt restructuring, these loans were included within our impaired loans under nonaccrual or accruing restructured loans. The following tables present additional information regarding troubled debt restructurings that occurred during the years ended December 31, 2022 and 2021:

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Troubled debt restructurings:				
Real estate mortgage	\$ 1,508,034	\$ 1,547,017	\$ 675,028	\$ 646,978
Energy	270,164	-	270,164	-
Total	\$ 1,778,198	\$ 1,547,017	\$ 945,192	\$ 646,978

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

Allowance for Credit Losses

The credit risk rating methodology is a key component of the Association's allowance for credit losses evaluation and is generally incorporated into the Association's loan underwriting standards and internal lending limits. In addition, borrower and commodity concentration lending and leasing limits have been established by the Association to manage credit exposure. The regulatory limit to a single borrower or lessee is 15% of the Association's lending and leasing limit base but the Association's board of directors have generally established more restrictive lending limits.

Effective January 1, 2023, the Association adopted the CECL accounting guidance as described in Note 2. A summary of changes in the allowance for credit losses by portfolio segment for the year ended December 31, 2023, are as follows:

	Real Estate Mortgage	Production and Intermediate- Term	Agri- business	Communi- cations	Energy	Water and Wastewater	Rural Residential Real Estate	International	Total
Allowance for Credit Losses on Loans:									
Balance at December 31, 2022	\$ (863,647)	\$ (16,578)	\$ (297,202)	\$ (3,060)	\$ (54,663)	\$ (859)	\$ (7,339)	\$ -	\$ (1,243,348)
Cumulative effect of a change in accounting principle	38,313	(14,684)	(33,954)	(5,719)	(1,151)	(17,593)	-	-	(34,788)
Balance at January 1, 2023	(825,334)	(31,262)	(331,156)	(8,779)	(55,814)	(18,452)	(7,339)	-	(1,278,136)
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	-	(3,600)	-	-	(2,969)	-	-	-	(6,569)
Provision for loan losses (loan loss reversal)	(114,668)	22,306	273,995	(21,736)	57,320	(1,153)	(11,490)	2.00	204,576
Transfers to/from reserve for unfunded commitments	(358)	(4,363)	(10,594)	43	1	-	(21)	19	(15,273)
Balance at December 31, 2023	\$ (940,360)	\$ (16,919)	\$ (67,755)	\$ (30,472)	\$ (1,462)	\$ (19,605)	\$ (18,850)	\$ 21	\$ (1,095,402)
Allowance for Credit Losses on Unfunded Commitments:									
Balance at December 31, 2022	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cumulative effect of a change in accounting principle	(358)	(6,709)	(31,496)	(642)	(18)	-	(21)	-	(39,244)
Balance at January 1, 2023	(358)	(6,709)	(31,496)	(642)	(18)	-	(21)	-	(39,244)
Transfers to/from reserve for unfunded commitments	358	4,363	10,594	(43)	(1)	-	21	(19)	15,273
Balance at December 31, 2023	\$ -	\$ (2,346)	\$ (20,902)	\$ (685)	\$ (19)	\$ -	\$ -	\$ (19)	\$ (23,971)

The allowance for credit losses as of December 31, 2023, was \$1,095,402, reflecting a decrease of \$147,946 from December 31, 2022. Excluding the impact of the adoption of the CECL accounting guidance of \$34,788 in funded commitments as previously discussed, the decrease was driven by payoffs of two capital market credits with specific reserves.

Allowance for Credit Losses - Prior to CECL Adoption

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

	Real Estate Mortgage	Production and Intermediate- Term	Agri- business	Communi- cations	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	<u>\$ 863,646</u>	<u>\$ 16,578</u>	<u>\$ 297,202</u>	<u>\$ 3,060</u>	<u>\$ 54,663</u>	<u>\$ 859</u>	<u>\$ 7,340</u>	<u>\$ 1,243,348</u>

	Real Estate Mortgage	Production and Intermediate- Term	Agri- business	Communi- cations	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	<u>\$ 820,811</u>	<u>\$ 301,325</u>	<u>\$ 32,877</u>	<u>\$ 2,994</u>	<u>\$251,392</u>	<u>\$ 1,982</u>	<u>\$ 6,025</u>	<u>\$ 1,417,406</u>

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 1.24%, 1.28%, and 1.27% of the issued stock of the Bank as of December 31, 2023, 2022 and 2021. As of those dates, the Bank's assets totaled \$37.28 billion, \$35.99 billion, and \$33.09 billion and members' equity totaled \$1.69 billion, \$1.62 billion and \$2.00 billion. The Bank's earnings were \$199.9 million, \$269.9 million and \$254.6 million during 2023, 2022 and 2021.

NOTE 5 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2023	2022	2021
Land and improvements	\$ 1,233,252	\$ 1,249,676	\$ 1,249,676
Building and improvements	3,833,550	2,683,668	2,683,668
Furniture and equipment	494,915	360,444	345,562
Computer equipment and software	302,602	271,743	217,527
Automobiles	904,048	662,275	662,275
Construction in progress	-	1,025,818	51,765
	<u>6,768,367</u>	<u>6,253,624</u>	<u>5,210,473</u>
Accumulated depreciation	<u>(1,162,427)</u>	<u>(1,177,270)</u>	<u>(934,134)</u>
Total	<u>\$ 5,605,940</u>	<u>\$ 5,076,354</u>	<u>\$ 4,276,339</u>

The association owns buildings in Sulphur Springs, Canton, Gilmer, Longview, and Terrell, and leases office space in Sulphur Springs (three locations) and Marshall. Two of the Sulphur Springs building leases are one-year leases that expire in 2024, and the third is a three-year lease, which expires in 2026. Lease expense was \$65,550, \$54,828, and \$55,173, for 2023, 2022, and 2021, respectively. Minimum annual lease payments for the next five years are as follows:

	<u>Operating Leases</u>	
2024	\$	73,200
2025		23,400
2026		23,400
2027		-
2028		-
Total	<u>\$</u>	<u>120,000</u>

NOTE 6 — OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Accounts receivable - other	\$ 180,558	\$ 194,603	\$ 177,175
Other	39,968	46,151	14,837
Total	<u>\$ 220,526</u>	<u>\$ 240,754</u>	<u>\$ 192,012</u>

Other liabilities comprised the following at December 31:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Accounts payable	1,077,327	\$ 1,315,716	\$ 1,441,656
Postretirement benefits liability	193,902	220,172	286,181
Accrued annual leave	242,406	216,242	212,635
Other	8,315	8,523	10,752
Total	<u>\$ 1,521,950</u>	<u>\$ 1,760,653</u>	<u>\$ 1,951,224</u>

NOTE 7 — 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 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, 2024, 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, 2023, 2022 and 2021, was \$317,332,782 at 3.23%, \$305,607,123 at 2.39%, and \$286,451,817 at 2.07%, 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, 2023, 2022, and 2021, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2023, was \$377,981,964 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, 2023, 2022 and 2021, 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 8 — 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.

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, 2023, 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, while participation certificates provide no voting rights to their owners.

Within two years of repayment of a loan, the Association capital bylaws require the conversion of any borrower's outstanding Class A to Class C stock. Class C stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of Class C shares is made solely at the discretion of the Association's board of directors. At December 31, 2023, 2022, and 2021, the Association had \$0, \$1,000, and \$1,000, respectively, of Class C stock.

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

Dividends and patronage distributions may be paid on the capital stock and participation certificates of the Association, as the board of directors may determine by resolution, subject to capitalization requirements as defined by the FCA. Amounts of patronage-sourced income not distributed as cash patronage are retained as nonqualified allocated equities, as evidenced in board resolutions stating the board's intention to count those equities as URE equivalents, subject to the requirement of FCA regulation 628.

The following patronage distributions were declared and paid in 2023, 2022, and 2021, respectively:

<u>Date Declared</u>	<u>Date Paid</u>	<u>Patronage Declared</u>
January 2023	March 2023	3,231,241
January 2022	March 2022	2,846,000
January 2021	March 2021	2,470,000

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, 2023, 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, 2023:

<u>Risk-weighted:</u>	<u>Regulatory Minimums</u>	<u>Regulatory Minimums with Buffer</u>	<u>As of December 31, 2023</u>
Common equity tier 1 ratio	4.50%	7.00%	18.40%
Tier 1 capital ratio	6.00%	8.50%	18.40%
Total capital ratio	8.00%	10.50%	18.71%
Permanent capital ratio	7.00%	7.00%	18.46%
<u>Non-risk-weighted:</u>			
Tier 1 leverage ratio	4.00%	5.00%	16.50%
UREE leverage ratio	1.50%	1.50%	16.19%

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 that 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 are 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 7 years, allocated equities held for a minimum of 7 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 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-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 revolvment less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

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

The components of the Association's risk-weighted capital, based on 90-day average balances, were as follows at December 31, 2023:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	44,474,355	44,474,355	44,474,355	44,474,355
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	1,171,514	1,171,514	1,171,514	1,171,514
Nonqualified allocated equities not subject to retirement	22,858,251	22,858,251	22,858,251	22,858,251
Allocated equities not subject to retirement	(3,473)	(3,473)	(3,473)	(3,473)
Allowance for loan losses and reserve for credit losses subject to certain limitations*	-	-	1,043,457	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(6,021,326)	(6,021,326)	(6,021,326)	(6,021,326)
	62,479,321	62,479,321	63,522,778	62,479,321
Denominator:				
Risk-adjusted assets excluding allowance	345,521,195	345,521,195	345,521,195	345,521,195
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(6,021,326)	(6,021,326)	(6,021,326)	(6,021,326)
Allowance for loan losses	-	-	-	(1,043,457)
	339,499,869	339,499,869	339,499,869	338,456,412
Calculated Ratio	18.40%	18.40%	18.71%	18.46%

*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, 2023:

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	44,474,355	44,474,355
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	1,171,514	-
Allocated equities held ≥ 7	(3,473)	(3,473)
Nonqualified allocated equities not subject to retirement	22,858,251	22,858,251
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(6,021,325)	(6,021,325)
	<u>62,479,322</u>	<u>61,307,808</u>
Denominator:		
Total Assets	385,662,618	385,662,618
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(6,901,819)	(6,901,819)
	<u>378,760,799</u>	<u>378,760,799</u>
Calculated Ratio	16.50%	16.19%

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

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

	ACA Table		
	2023	2022	2021
Class A stock	216,516	220,306	218,630
Class C stock	-	200	200
Participation certificates	18,786	17,998	15,742
Total	<u>235,302</u>	<u>238,504</u>	<u>234,572</u>

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

	2023	2022	2021
Nonpension postretirement benefits	69,390	60,450	1,412

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Accumulated other comprehensive income (loss) at January 1	\$ 60,450	\$ 1,412	\$ 6,987
Actuarial gains (losses)	12,642	60,603	(4,010)
Amortization of prior service (credit) costs included in salaries and employee benefits	(1,565)	(1,565)	(1,565)
Amortization of actuarial (gain) loss included in salaries and employee benefits	(2,137)	-	-
Other comprehensive income (loss), net of tax	<u>8,940</u>	<u>59,038</u>	<u>(5,575)</u>
Accumulated other comprehensive income at December 31	<u>\$ 69,390</u>	<u>\$ 60,450</u>	<u>\$ 1,412</u>

NOTE 9 — INCOME TAXES:

There was no provision for income taxes for the years ended December 31, 2023, 2022, and 2021.

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Federal tax at statutory rate	\$ 1,125,221	\$ 1,185,759	\$ 883,672
Effect of nontaxable FLCA subsidiary	(1,721,821)	(1,659,949)	(1,370,271)
Change in valuation allowance	596,600	474,190	486,599
Provision for (benefit from) income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<u>Deferred Tax Assets</u>			
Allowance for loan losses	\$ 3,553	\$ 14,010	\$ 63,382
Loss carryforwards	7,555,101	7,268,147	6,726,774
Gross deferred tax assets	<u>7,558,654</u>	<u>7,282,157</u>	<u>6,790,156</u>
Deferred tax asset valuation allowance	<u>(7,558,654)</u>	<u>(7,282,157)</u>	<u>(6,790,156)</u>
Net deferred tax asset (liability)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Association recorded valuation allowances of \$7,558,654, \$7,282,157, and \$6,790,156 during 2023, 2022, and 2021, 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, 2023, approximates \$33,060,593, of which \$21,828,449 will begin to expire in 2025 and \$11,232,144 has an indefinite carryforward period.

NOTE 10 — 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, because 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 DB 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. DB 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). The Supplemental 401(k) Plan allows District employers to elect to participate in any or all of the following benefits:

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

The 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 DB 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, 2023.

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

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

The following table includes additional information regarding the funded status of the DB Plan, the Association’s contributions, and the percentage of Association contribution to total plan contributions for the years ended December 31, 2023, 2022, and 2021:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Funded status of plan	73.3%	70.9%	70.5%
Association's contribution	\$ 14,382	\$ 25,160	\$ 38,625
Percentage of Association's contribution to total contributions	0.2%	0.2%	0.3%

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 74.1%, 71.8%, and 72.0% at December 31, 2023, 2022, and 2021, respectively.

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer

and, consequently, the liability for these benefits is included in other liabilities. 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	2023	2022	2021
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	\$ 220,962	\$ 286,181	\$ 284,507
Service cost	3,446	5,328	8,276
Interest cost	11,077	8,647	7,711
Plan participants' contributions	1,035	6,062	10,222
Actuarial loss (gain)	(12,642)	(60,603)	4,010
Benefits paid	(16,230)	(24,653)	(28,545)
Accumulated postretirement benefit obligation, end of year	\$ 207,648	\$ 220,962	\$ 286,181
Change in Plan Assets			
Plan assets at fair value, beginning of year	\$ -	\$ -	\$ -
Company contributions	15,195	18,591	18,323
Plan participants' contributions	1,035	6,062	10,222
Benefits paid	(16,230)	(24,653)	(28,545)
Plan assets at fair value, end of year	\$ -	\$ -	\$ -
Funded status of the plan	\$ (207,648)	\$ (220,962)	\$ (286,181)
Amounts Recognized on the Balance Sheets			
Net asset/(liability) at end of year	\$ (207,648)	\$ (220,962)	\$ (286,181)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss (gain)	\$ (65,824)	\$ (55,319)	\$ 5,284
Prior service cost (credit)	(3,566)	(5,131)	(6,696)
Total	\$ (69,390)	\$ (60,450)	\$ (1,412)
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	12/31/2023	12/31/2022	12/31/2021
Discount rate	5.50%	5.20%	3.15%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	7.50%/8.40%	7.20%/7.70	6.80%/6.00
Ultimate health care cost trend rate	4.50%	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2034	2031	2030

Total Cost	2023	2022	2021
Service cost	\$ 3,446	\$ 3,446	\$ 5,328
Interest cost	11,077	11,077	8,647
Amortization of:			
Unrecognized prior service cost	(1,565)	(1,565)	(1,565)
Unrecognized net loss (gain)	(2,137)	(2,137)	-
Net postretirement benefit cost	\$ 10,821	\$ 10,821	\$ 12,410

Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income

Net actuarial loss (gain)	\$ (12,642)	\$ (60,603)	\$ 4,010
Amortization of net actuarial loss (gain)	2,137	-	-
Prior service cost (credit)	-	-	-
Amortization of prior service cost	1,565	1,565	1,565
Recognition of prior service cost	-	-	-
Amortization of transition liability (asset)	-	-	-
Total recognized in other comprehensive income	\$ (8,940)	\$ (59,038)	\$ 5,575

AOCI Amounts Expected to be Amortized Into Expense in 2024

Unrecognized net transition obligation (asset)	\$ -	\$ -	\$ -
Unrecognized prior service cost	(1,565)	(1,565)	(1,565)
Unrecognized net loss (gain)	(3,086)	(2,137)	-
Total	\$ (4,651)	\$ (3,702)	\$ (1,565)

Weighted-Average Assumptions Used to Determine Benefit Cost

Measurement date	12/31/2022	12/30/2021	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%/7.70%	6.80%/6.00%	6.90%/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

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)

Fiscal 2024	\$ 12,105	\$ 15,456	\$ 13,883
Fiscal 2025	11,721	14,671	13,056
Fiscal 2026	11,277	13,802	12,200
Fiscal 2027-2031	10,810	12,887	49,295
Fiscal 2028-2032	10,342	52,166	-
Fiscal 2029-2033	47,551	-	-

Expected Contributions

Fiscal 2024	\$ 12,105	\$ 15,456	\$ 13,883
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NOTE 11 — 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 people 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 people at December 31, 2023, 2022, and 2021 for the Association amounted to \$4,803,803, \$8,711,421, and \$7,447,918. During 2023, 2022, and 2021, \$3,810,548, \$3,443,998, and \$10,589,747 of new loans were made, and repayments totaled \$7,718,165, \$3,198,033, and \$4,164,913, respectively. In the opinion of management, no such loans outstanding at December 31, 2023, 2022, and 2021 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 District associations, such as FCSIC expenses. The Bank charges the individual District associations directly for these services based on each association's proportionate usage. These expenses totaled \$612,721, \$634,728, and \$486,855 in 2023, 2022, and 2021, respectively.

The Association received patronage payments from the Bank totaling \$845,603 (\$591,922 cash and \$253,681 allocated equity), \$2,178,243, and \$1,871,647 during 2023, 2022, and 2021, respectively.

NOTE 12 — FAIR VALUE MEASUREMENTS:

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

Assets and liabilities measured at fair value on a recurring basis at December 31, 2023, 2022, and 2021 for each of the fair value hierarchy values are summarized below:

December 31, 2023	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ -	\$ -
December 31, 2022	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ 1,324,866	\$ 1,324,866
December 30, 2021	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ 1,124,772	\$ 1,124,772

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, 2023					
Fair Value Measurement Using					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	\$ 138,043	\$ 138,043	\$ -	\$ -	\$ 138,043
Net loans	374,677,588	-	-	349,731,081	349,731,081
Total Assets	<u>\$ 374,815,631</u>	<u>\$ 138,043</u>	<u>\$ -</u>	<u>\$ 349,731,081</u>	<u>\$ 349,869,124</u>
Liabilities:					
Note payable to Bank	<u>\$ 317,332,782</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 296,265,955</u>	<u>\$ 296,265,955</u>

December 31, 2022					
Fair Value Measurement Using					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	\$ 127,481	\$ 127,481	\$ -	\$ -	\$ 127,481
Net loans	361,364,752	-	-	328,064,480	328,064,480
Total Assets	<u>\$ 361,492,233</u>	<u>\$ 127,481</u>	<u>\$ -</u>	<u>\$ 328,064,480</u>	<u>\$ 328,191,961</u>
Liabilities:					
Note payable to bank	<u>\$ 305,607,123</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 277,512,399</u>	<u>\$ 277,512,399</u>

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	<u>\$ 341,842,442</u>	<u>\$ 104,802</u>	<u>\$ -</u>	<u>\$ 340,547,587</u>	<u>\$ 340,652,389</u>
Liabilities:					
Note payable to bank	<u>\$ 286,451,817</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 285,456,897</u>	<u>\$ 285,456,897</u>

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

The association had no assets or liabilities measured at fair value on a recurring basis for 2023, 2022, or 2021.

About 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:

Standby Letters of Credit

The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

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.

NOTE 13 — 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, 2023, \$22,902,554 of commitments and \$42,006 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 14 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

	2023				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,827	\$ 2,610	\$ 2,695	\$ 2,778	\$ 10,910
(Provision for) reversal of loan losses	87	81	128	(91)	205
Noninterest income (expense), net	(1,232)	(1,012)	(1,681)	(1,832)	(5,757)
Net income	\$ 1,682	\$ 1,679	\$ 1,142	\$ 855	\$ 5,358

	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

NOTE 15 — SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 8, 2024, 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 five 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 and one building in Marshall.

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 8 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 7, "Note Payable to the Bank," Note 10, "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 13 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 e-mailing fcf@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, 2023, 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:

<u>NAME</u>	<u>POSITION</u>	<u>DATE ELECTED/ EMPLOYED</u>	<u>TERM EXPIRES</u>
Terry D. Milligan	Chairman of the board	2010	2025
Cheryl Scott	Board-appointed director	2019	2025
Brandon Sides	Director	2017	2026
Danny Evans	Director	2018	2024
Clay Smith	Director	2020	2023
Thomas Goodson	Director	2021	2024
Robert Tiller	Director	2022	2025
Whit Dale	Director	2023	2026
Derrell Chapman	CEO	2017	-
Jake Agaron	SVP/CCO	2014	-
Sherry Sturgis	SVP/CAO	2007	-
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. 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. 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. 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. 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.

Thomas Goodson, director and member of audit committee. Mr. Goodson resides in Smith County and owns and operates East Texas Seals in Van Zandt County, 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. He 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. Dr. Tiller 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.

Whit Dale, director and member of compensation committee. Mr. Dale holds a bachelor of science degree in animal science from Texas A&M University-Commerce. Mr. Dale has served as a Public Safety Officer with the Highland Park Department of Public Safety for over 18 years and is a licensed real estate agent in state of Texas at Century 21 Patterson Agency. Mr. Dale owns and operates a cow/calf operation in Rains County, Texas. He resides in Point, Texas and has served as stockholder-elected director since his election in 2023.

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 bachelor of business administration degree 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 20 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 degree 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 a 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 2023, 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 to board members. The chair of the board and audit committee chair each received a monthly retainer of \$1,100 per 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 2023 was paid at the IRS-approved rate of 65.5 cents per mile. A copy of the travel policy is available to stockholders of the association upon request.

Director	Number of Days Served Associated With		Total Compensation in 2023
	Board Meetings	Other Official Activities	
Terry D. Milligan	10	49	\$ 38,060
Cheryl Scott	10	52	31,682
Brandon Sides	9	24	22,937
Danny Evans	10	35	24,860
Clay Smith	4	14	11,887
Thomas Goodson	10	31	24,511
Robert Tiller	10	9	10,738
Whit Dale	6	19	15,550
			<u>\$ 180,225</u>

The aggregate compensation paid to directors in 2023, 2022 and 2021 was \$180,225, \$169,383, and \$124,965, respectively. Additional detail regarding director compensation paid for committee service (included in the table above) is as follows for 2023:

Director	Committee	
	Audit	Other Official Activities
Terry D. Milligan	\$ 5,610	\$ 32,450
Cheryl Scott	5,610	26,072
Brandon Sides	-	22,937
Danny Evans	4,660	20,200
Clay Smith	3,237	8,650
Thomas Goodson	1,273	23,238
Robert Tiller	-	10,738
Whit Dale	-	15,550
	<u>\$ 20,390</u>	<u>\$ 159,835</u>

The aggregate amount of reimbursement for travel, subsistence, and other related expenses paid to directors and on their behalf was \$60,999, \$58,710, and \$17,880 in 2023, 2022 and 2021, 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 2023, 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 team-based loan production goals. Loan officers can earn 8-20 basis points times the amount of their team-base loan production based on a tiered production goal established by management. The loan officer team must achieve a minimum in core portfolio loan production in order to earn any incentive under the Association Wide portion of the 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 2023. Loan officers can earn a percentage of their annual base salary, ranging from 4% to 10%, 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 2023 multiplied by their annual base salary. ADB must increase by a minimum of 4% for this incentive to apply. The incentive is capped at a maximum of 10%. Loan officer team must achieve 80% of their team-based 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 2023, 2022, and 2021. 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	2023	\$ 260,000	\$ 20,000	\$ 37,109	\$ 317,109
Derrell Chapman - CEO	2022	250,000	37,500	40,646	328,146
Derrell Chapman - CEO	2021	238,000	50,000	42,333	330,333
Senior Officers/OHCI (a)					
5	2023	\$ 761,098	\$ 66,860	\$ 100,249	\$ 928,208
5	2022	716,734	153,985	126,470	997,189
6	2021	768,372	231,465	157,542	1,157,379

- (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. Said employees reimburse the Association for personal miles at a board-established rate. For all non-reimbursed 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 2023 at the IRS-approved rate of 65.5 cents per mile.

Neither the CEO nor any other senior officer received noncash compensation exceeding \$5,000 in 2023, 2022, and 2021.

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 11 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 2023 annual report. The total fees for professional services rendered by PricewaterhouseCoopers LLP for the association related to 2023 were \$107,000 for audit services, \$14,200 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, 2023.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 8, 2024, 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 regulations. Our directors and employees are restricted from disclosing information not normally contained in published reports or press releases about the Association or its members.

2024 Credit and Services Plan to Young, Beginning and Small Farmers and Ranchers

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 - \$350,000 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.

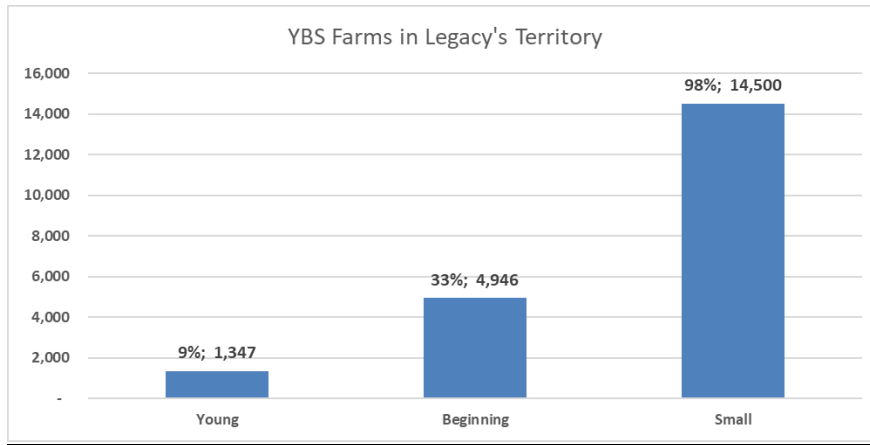
The results of these outreach and education programs are reported to the Association Board of Directors on an annual basis.

USDA 2017 Census of Agricultural Data

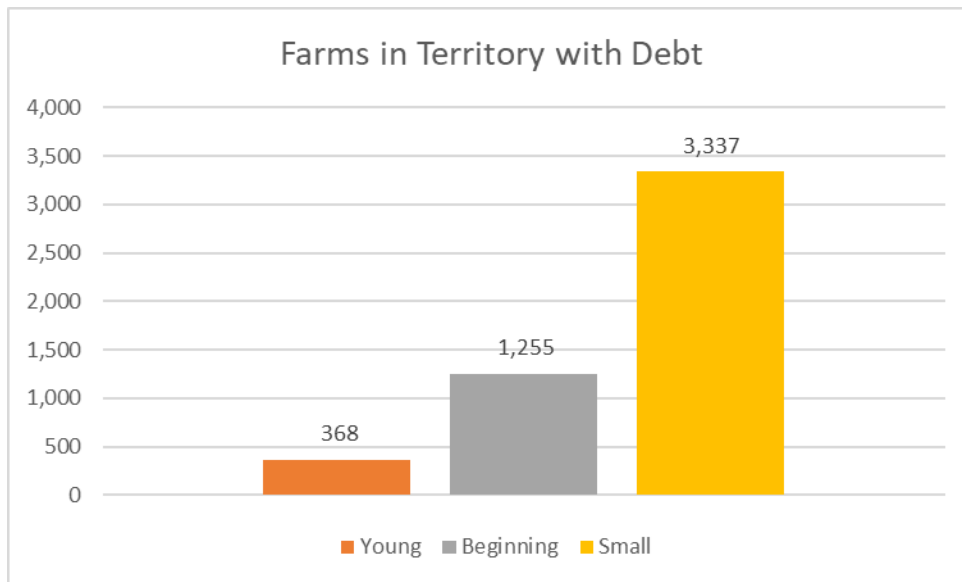
In April 2019, USDA published its 2017 Ag Census. The Census provides information about America's farms and ranches and those who operate them, including new data about on-farm decision making, down to the county level. Information collected directly from farmers and ranchers tells us that farm numbers 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 1,637 loans as of December 31, 2023; 1,648 loans as of year-end 2022; and 1,602 loans as of year-end 2021. The table below represents Legacy's YBS concentrations as of year-end 2021, 2022, and 2023 based on the total number of loans in the portfolio.

	2023 Count / % of Total Portfolio		2022 Count / % of Total Portfolio		2021 Count / % of Total Portfolio	
Total YBS	1,177	71.9%	1,215	74.9%	1,200	74.9%
Young	201	12.2%	199	12.2%	200	12.0%
Beginning	793	49.1%	802	49.1%	775	46.4%
Small	1,172	71.7%	1,172	71.7%	1,165	69.8%

**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 2021-2023.

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 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 2024. 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:		2023	2024	2025	2026
	young farmers	201	207	213	219
	beginning farmers	793	833	875	919
	small farmers	1,124	1,180	1,239	1,301
As a percentage of total number of loans:		2023	2024	2025	2026
	young farmers	12.3%	12.0%	11.8%	11.4%
	beginning farmers	48.4%	48.5%	48.4%	47.7%
	small farmers	68.7%	68.7%	68.6%	67.5%
Combined service to the YBS segment:		2023	2024	2025	2026
	% of Total Number of Loans	71.9%	72.4%	72.4%	71.5%
	% of Total Volume of Loans	65.4%	65.8%	65.4%	63.8%

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 has 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 2024, the Association expects to exceed 50% of the marketing budget toward YBS efforts with the intent to continually increase year over year. Marketing dollars will be targeted toward 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 2024.

- YBS Committee

To maximize Legacy Ag Credit’s relevance and awareness to its YBS audience, the Association has

appointed a YBS Committee. The Committee will have the responsibility and authority to conduct all association YBS activities and report on the results of such activities to the Management team and the Board on a quarterly basis. The Committee will be comprised of the Senior Vice President of Lending, the Marketing Manager, and the Canton office Branch Manager and may include members of the Management team and/or branch office representatives as needed to appropriately facilitate and report on YBS activities.

- **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 a substantial portion 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 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 producer’s valuable information regarding farm planning and management, product marketing, and risk management.
- Credit Life Insurance and fee appraisal services.
- Allocation of additional time, from inquiry through closing, to assist qualified borrowers with real estate purchases.
- Recognition and allowance for circumstances unique to YBS applicants.
- Support of Federal and state sponsored guarantee programs for YBS borrowers.
- Facilitation of loan processing with Farm Service Agency and Texas Department of Agriculture.
- 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 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.

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 system wide classification standards.
- Internal controls, and more specifically, the lines of responsibility in administering the YBS program, are contained within existing Association loan policies and procedures regarding standard and New Generation loan programs. Each loan officer is charged with maintaining soundness and monitoring performance results within the YBS loan portfolio.
- 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 five (5) New Generation loans for a total of \$2.47 million in 2023. The goal is to close five (5) loans for a total of \$1 million in 2024.

- 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 quarterly. 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 and Beginning Farmer participation programs.
- An annual report of the Association’s YBS loan related data is submitted to the Farm Credit Bank of Texas after each calendar year-end. The Farm Credit Bank of Texas compiles YBS data on a District-wide basis and submits it 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 quarterly. 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.
- 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 Committee for insight on developing expertise in meeting the special financing and related services needs of the YBS sector.

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ADDRESS SERVICE REQUESTED