LEGACY AG CREDIT, ACA

2023
Third Quarter

For the Nine Months Ended September 30, 2023

REPORT OF MANAGEMENT

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

Derrell W. Chapman, CPA, Chief Executive Officer
November 7, 2023

Terry Milligan, Chairman, Board of Directors
November 7, 2023

Heather Johnson, CPA, Chief Financial Officer
November 7, 2023

Third Quarter 2023 Financial Report

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LEGACY AG CREDIT, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Legacy Ag Credit, ACA (association or Legacy), for the three and nine months ended September 30, 2023. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2022 Annual Report to Stockholders.

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

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

Significant Events

In January 2023, the board of directors approved a patronage payment of $3,231,000 related to 2022 earnings, which was paid in March 2023.

With the help of the Farm Credit bank of Texas (FCBT or the bank), Legacy underwent a conversion to FarmView, a new loan accounting system and an enhancement in lending technology geared at bringing the association closer to our customers throughout the loan process. Significant time has been invested by the lending staff, lending support staff and loan operations in training for this conversion, which occurred in June 2023.

Loan Portfolio

Total loans outstanding on September 30, 2023, including nonaccrual loans and sales contracts, were $362,215,691 compared to $363,932,965 at December 31, 2022, reflecting a decrease of 0.50%. Nonaccrual loans as a percentage of total loans outstanding were 0.20 % on September 30, 2023, compared to 0.83% at December 31, 2022.

The association recorded $927 in recoveries and $0 in charge-offs for the quarter ended September 30, 2023, and $900 in recoveries and $0 in charge-offs for the same period in 2022. The association's allowance for loan losses was 0.28% and 0.34% of total loans outstanding as of September 30, 2023, and December 31, 2022, respectively.

Risk Exposure

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

High-Risk Assets

	September 30, 2023		December 31, 2022	
	Amount	%	Amount	%
Nonaccrual	$ 722,849	100.0%	$ 3,032,482	78.5%
Formally restructured	-	0.0%	833,006	21.5%
Total	**$ 722,849**	**100.0%**	**$ 3,865,488**	**100.0%**

Results of Operations

The association had net income of $1,142,457 and $4,503,232 for the three and nine months ended September 30, 2023, as compared to net income of $1,437,085 and $4,032,845 for the same period in 2022, reflecting a decrease of 20.5% and an increase of 11.7%, respectively. Net interest income was $2,695,262 and $8,132,137 for the three and nine months ended September 30, 2023, compared to $2,536,945 and $7,422,487 for the same period in 2022, reflecting an increase of 6.2% and 9.6%, respectively.

	Nine Months Ended							
	September 30, 2023				September 30, 2022			
	Average Balance		Interest		Average Balance		Interest	
Loans	$	**364,708,287**	$	**15,407,351**	$	357,712,001	$	12,542,712
Interest-bearing liabilities		**308,125,342**		**7,275,214**		301,708,376		5,120,225
Impact of capital	$	**56,582,945**			$	56,003,625		
Net interest income			$	**8,132,137**			$	7,422,487

	2023 Average Yield	2022 Average Yield
Yield on loans	**5.65%**	4.69%
Cost of interest-bearing liabilities	**3.16%**	2.27%
Interest rate spread	**2.49%**	2.42%
Net interest income as a percentage of average earning assets	**2.98%**	2.78%

	Nine months ended: September 30, 2023 vs. September 30, 2022					
	Increase (decrease) due to					
	Volume		Rate		Total	
Interest income - loans	$	**245,315**	$	**2,619,324**	$	**2,864,639**
Interest expense		**108,902**		**2,046,087**		**2,154,989**
Net interest income	$	**136,414**	$	**573,236**	$	**709,650**

Interest income for the three and nine months ended September 30, 2023, increased by $770,418 and $2,864,639, or 17.2% and 22.8% respectively, from the same period of 2022, primarily due to increases in yields on earning assets and an increase in average loan volume. Interest expense for the three and nine months ended September 30, 2023, increased by $612,101 and $2,154,989, or 31.7% and 42.1%, from the same period of 2022 due to an increase in interest rates and an increase in average debt volume. Average loan volume for the third quarter of 2023 was $363,038,501, compared to $364,133,618 in the third quarter of 2022. The average net interest rate spread on the loan portfolio for the third quarter of 2023 was 2.95%, compared to 2.76% in the third quarter of 2022.

The association's return on average assets for the nine months ended September 30, 2023, was 1.59% compared to 1.46% for the same period in 2022. The association's return on average equity for the nine months ended September 30, 2023, was 8.95%, compared to 8.33% for the same period in 2022.

In the third quarter, Legacy reduced its anticipated patronage income receivable from the bank by approximately one half, due to indicators from the bank regarding increased reserves on its capital markets credits and the bank's need to retain additional capital to support growth. This decrease in other income was partially offset by recognized recoveries of interest income on nonaccrual loans, as well as related recovery of provision, from the resolution of several participation credits purchased. Additionally, a gain on the sale of the former Canton office and the sale of fleet vehicles was recognized.

Liquidity and Funding Sources

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

	September 30, 2023		December 31, 2022	
Note payable to the Bank	$	305,994,525	$	305,607,123
Accrued interest on note payable		856,681		742,186
Total	**$**	**306,851,206**	$	306,349,309

The association operates under a general financing agreement (GFA) with the bank. The current GFA is effective through September 30, 2024. The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of $305,994,525 as of September 30, 2023, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 3.16% on September 30, 2023. The indebtedness is collateralized by a pledge of substantially all the association's assets to the bank and is governed by the GFA. The increase in note payable to the bank and related accrued interest payable since December 31, 2022, is due to the association's increase in loan volume coupled with a higher weighted average interest rate. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were $53,977,331 on September 30, 2023. The maximum amount the association may borrow from the bank as of September 30, 2023, was $363,229,583 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, 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.

Capital Resources

The association's capital position increased by $1,171,488 on September 30, 2023, compared to December 31, 2022 due to earnings offset by the establishment of a $3,231,241 patronage payable during the first quarter of 2023 and a direct reduction to equity of $74,000 at January 1, 2023 related to the cumulative effect of a change in accounting principle, described in Note 1. The association's debt as a ratio of members' equity was 4.47:1 as of September 30, 2023, compared to 4.55:1 as of December 31, 2022.

Farm Credit Administration regulations require the association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of September 30, 2023, the association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements

Refer to Note 1 – "Organization and Significant Accounting Policies" in this quarterly report for disclosures of recent accounting pronouncements which may impact the association's consolidated financial position and results of operations and for critical accounting policies.

Relationship With the Farm Credit Bank of Texas

The association's financial condition may be impacted by factors that affect the bank. The financial condition and results of operations of the bank may materially affect the stockholder's investment in the association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2022 Annual Report of association more fully describe the association's relationship with the bank.

The annual and quarterly stockholder reports of the bank can be found at the bank's website at *www.farmcreditbank.com.*

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

Legacy Ag Credit, ACA

CONSOLIDATED BALANCE SHEETS

		September 30, 2023 (unaudited)		December 31, 2022
ASSETS				
Cash	$	128,059	$	127,481
Loans		362,215,691		363,932,965
Less: allowance for loan losses		1,006,869		1,243,348
Net loans		361,208,822		362,689,617
Accrued interest receivable		2,585,889		1,808,462
Investment in and receivable from the Farm Credit Bank of Texas:				
Capital stock		6,016,770		6,016,770
Other		1,480,227		401,341
Premises and equipment, net		5,798,307		5,076,354
Other assets		263,698		240,754
Total assets	$	377,481,772	$	376,360,779
LIABILITIES				
Note payable to the Farm Credit Bank of Texas	$	305,994,525	$	305,607,123
Advance conditional payments		5		-
Accrued interest payable		856,681		742,186
Drafts outstanding		42,480		454,833
Other liabilities		1,620,609		1,760,653
Total liabilities		308,514,300		308,564,795
MEMBERS' EQUITY				
Capital stock and participation certificates		1,168,355		1,192,520
Non-qualified allocated retained earnings		22,858,251		21,076,255
Unallocated retained earnings		44,883,194		45,466,759
Accumulated other comprehensive income (loss)		57,672		60,450
Total members' equity		68,967,472		67,795,984
Total liabilities and members' equity	$	377,481,772	$	376,360,779

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

Legacy Ag Credit, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2023	2022	**2023**	2022
INTEREST INCOME				
Loans	5,241,514	4,471,096	15,407,351	12,542,712
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	2,546,237	1,934,151	7,275,018	5,120,225
Advance conditional payments	15	-	196	-
Total interest expense	**2,546,252**	1,934,151	**7,275,214**	5,120,225
Net interest income	**2,695,262**	2,536,945	**8,132,137**	7,422,487
PROVISION FOR LOAN LOSSES	(127,762)	(12,607)	(295,094)	28,945
Net interest income after provision for loan losses	**2,823,024**	2,549,552	**8,427,231**	7,393,542
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	144,840	534,026	1,234,168	1,554,634
Loan fees	108,102	88,268	239,050	336,782
Financially related services income	15	65	117	156
Gain (loss) on sale of premises and equipment, net	(16,425)	3	306,436	(5,131)
Other noninterest income	32,500	51,868	60,125	167,084
Total noninterest income	**269,032**	674,230	**1,839,896**	2,053,525
NONINTEREST EXPENSES				
Salaries and employee benefits	1,216,703	1,083,297	3,551,261	3,326,943
Directors' expense	27,868	51,002	155,959	191,792
Purchased services	112,226	123,758	365,577	397,985
Travel	74,125	58,767	185,774	195,965
Occupancy and equipment	182,813	152,254	502,655	434,047
Communications	26,061	23,817	84,496	70,302
Advertising	32,083	27,461	113,039	80,114
Public and member relations	46,148	52,449	143,641	104,567
Supervisory and exam expense	37,036	32,430	101,895	92,554
Insurance fund premiums	106,983	120,350	324,683	351,354
Other components of net periodic postretirement benefit cost	1,843	1,771	5,531	5,312
Other noninterest expense	85,710	59,343	229,384	163,289
Total noninterest expenses	**1,949,599**	1,786,699	**5,763,895**	5,414,224
NET INCOME	**1,142,457**	1,437,083	**4,503,232**	4,032,843
Other comprehensive income:				
Change in postretirement benefit plans	(926)	(391)	(2,778)	(1,173)
COMPREHENSIVE INCOME	**1,141,531**	1,436,692	**4,500,454**	4,031,670

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

Legacy Ag Credit, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2021	$ 1,171,860	$ 20,081,509	$ 43,660,726	$ 1,412	$ 64,915,507
Net income	-	-	4,032,843	-	4,032,843
Other comprehensive income	-	-	-	(1,173)	(1,173)
Capital stock/participation certificates and allocated retained earnings issued	159,680	-	-	-	159,680
Capital stock/participation certificates and allocated retained earnings retired	(125,930)	-	-	-	(125,930)
Patronage refunds:					
Cash	-	-	(2,845,692)	-	(2,845,692)
Nonqualified allocations	-	-	-	-	-
Balance at September 30, 2022	$ 1,205,610	$ 20,081,509	$ 44,847,877	$ 239	$ 66,135,235
Balance at December 31, 2022	$ 1,192,520	$ 21,076,255	$ 45,466,759	$ 60,450	$ 67,795,984
Net income	-	-	4,503,233	-	4,503,233
Other comprehensive income	-	-	-	(2,778)	(2,778)
Capital stock/participation certificates and allocated retained earnings issued	113,260	-	-	-	113,260
Capital stock/participation certificates and allocated retained earnings retired	(137,425)	-	-	-	(137,425)
Cumulative effect of CECL implementation	-	-	(74,032)	-	(74,032)
Patronage refunds:					
Cash	-	-	(3,230,770)	-	(3,230,770)
Nonqualified allocations	-	1,781,996	(1,781,996)	-	-
Balance at September 30, 2023	**$ 1,168,355**	**$ 22,858,251**	**$ 44,883,194**	**$ 57,672**	**$ 68,967,472**

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

Unaudited

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

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

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2022, as contained in the 2022 Annual Report to Stockholders.

In the opinion of management, the unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2023. Descriptions of the significant accounting policies are included in the 2022 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

Recently Adopted Accounting Pronouncements

On January 1, 2023, the association adopted the Financial Accounting Standards Board (FASB) guidance entitled “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 entitled “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 impact to the allowance for credit losses and retained earnings upon adoption of this guidance on January 1, 2023:

	January 1, 2023	CECL adoption impact	December 31, 2022
Assets:			
Allowance for credit losses on loans	$ 1,278,135	$ 34,787	$ 1,243,348
Liabilities:			
Allowance for credit losses on unfunded commitments	$ 39,245	$ 39,245	$ -
Retained earnings:			
Unallocated retained earnings, net of tax	$ 66,617,046	$ 74,032	$ 66,543,014

A. *Loans and Allowance for Credit Losses*

Loans are generally carried at their principal amount outstanding adjusted for charge-offs. Loan origination fees and direct loan origination costs that were netted and capitalized in prior years are amortized over the average life of the related loan as an adjustment to interest income. Loan prepayment fees are reported in interest income. Interest on loans is accrued and credited to interest income based on 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 the 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 that is considered uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

When loans are in nonaccrual status, interest payments received in cash are generally recognized as interest income if the collectability of the loan principal is fully expected and certain other criteria are met. Otherwise, payments received on nonaccrual loans are applied against the recorded investment in the loan asset. Nonaccrual loans are returned to accrual status if all contractual principal and interest is current, the borrower is fully expected to fulfill the contractual repayments terms and after remaining current as to principal and interest for a sustained period or having a recent repayment pattern demonstrating future repayment capacity to make on-time payments. 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 in accrued interest receivable and not as part of loans on the Consolidated Balance Sheet. The association 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 the association to measure the expected credit losses based on fair value of the collateral at the reporting date when the association 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 is 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 allowance for credit losses (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 cancellable. The ACL comprises:

- the allowance for credit losses on loans (ACLL)
- 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 allowance 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.

Methodology for 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 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. 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 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, 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.

The component of 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;
- Nature of the loan portfolio, including the terms of the loans;
- Experience, ability and depth of the lending management and other relevant staff;
- Volume and severity of past due and adversely classified or graded loans and the volume of nonaccrual loans;
- Quality of the loan review and process;
- Value of underlying collateral for collateral-dependent loans;
- Existence and effect of any concentrations of credit and changes in the level of such concentrations; and
- Effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio.

The association may use multiple scenarios over reasonable and supportable forecast period of two years. Subsequent to the forecast period, the association reverts to long run historical loss experience beyond the two years on a straight-line basis 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 unemployment rates, real gross domestic product levels and corporate bond spreads, as well as net farm income and agricultural commodity prices. Also considered are loan and borrower characteristics, such as internal risk ratings, delinquency status, collateral type, 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 – Legacy 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 Balance Sheet. 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 association and applying the loss factors used in the ACLL methodology to the results of the usage calculation. No allowance for credit losses are recorded for commitments that are unconditionally cancellable.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	September 30, 2023 Amount	December 31, 2022 Amount
Production agriculture:		
Real estate mortgage	**$ 303,156,088**	$ 308,324,835
Production and intermediate-term	**13,016,201**	10,867,818
Agribusiness:		
Loans to cooperatives	**2,667,810**	4,584,393
Processing and marketing	**17,117,618**	16,158,542
Farm-related business	**2,325,544**	2,275,713
Communication	**8,517,348**	7,224,417
Energy	**2,738,921**	3,236,720
Water and waste-water	**2,991,173**	1,998,630
Rural residential real estate	**9,684,988**	9,261,897
Total	**$ 362,215,691**	$ 363,932,965

The association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold as of September 30, 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	$ 15,575,857	$ 9,475,748	$ -	$ -	$ 15,575,857	$ 9,475,748
Production and intermediate-term	4,853,911	-	-	-	4,853,911	-
Agribusiness	22,036,141	-	-	-	22,036,141	-
Communication	8,517,348	-	-	-	8,517,348	-
Energy	2,738,921	-	-	-	2,738,921	-
Water and waste-water	2,991,173	-	-	-	2,991,173	-
Total	$ 56,713,352	$ 9,475,748	$ -	$ -	$ 56,713,352	$ 9,475,748

The association is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the association on such balances. Balances of ACPs were $5 and $0 on September 30, 2023, and December 31, 2022, respectively.

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 association 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, institutions that make 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 association 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 association 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 September 30, 2023:

	Term Loans Amortized Cost by Origination Year								
	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
Real estate mortgage									
Acceptable	$ 26,285,991	$ 61,761,664	$ 74,670,349	$ 39,006,857	$ 25,341,619	$ 68,679,153	$ 44,677	$ -	$ 295,790,310
OAEM	1,860,922	1,371,308	-	266,098	-	731,089	2,146,890	-	6,376,307
Substandard/Doubtful	-	-	-	127,872	-	861,334	-	-	989,206
	$ 28,146,913	$ 63,132,972	$ 74,670,349	$ 39,400,827	$ 25,341,619	$ 70,271,576	$ 2,191,567	$ -	$ 303,155,823
Production and intermediate-term									
Acceptable	$ 4,236,144	$ 442,628	$ 250,451	$ 166,620	$ 106,011	$ 239,636	$ 7,565,384	$ -	$ 13,006,874
OAEM	-	-	-	-	-	9,593	-	-	9,593
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	$ 4,236,144	$ 442,628	$ 250,451	$ 166,620	$ 106,011	$ 249,229	$ 7,565,384	$ -	$ 13,016,467
Agribusiness									
Acceptable	$ 2,897,575	$ 7,699,836	$ 3,055,891	$ 2,250,713	$ 800,000	$ 3,769,816	$ 1,192,996	$ -	$ 21,666,827
OAEM	-	375,051	-	-	-	-	69,093	-	444,144
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	$ 2,897,575	$ 8,074,887	$ 3,055,891	$ 2,250,713	$ 800,000	$ 3,769,816	$ 1,262,089	$ -	$ 22,110,971
Communications									
Acceptable	$ 2,960,343	$ -	$ -	$ 5,512,301	$ -	$ -	$ 44,704	$ -	$ 8,517,348
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	$ 2,960,343	$ -	$ -	$ 5,512,301	$ -	$ -	$ 44,704	$ -	$ 8,517,348
Energy and Water/waste disposal									
Acceptable	$ 991,911	$ -	$ -	$ -	$ -	$ 4,663,528	$ 74,654	$ -	$ 5,730,093
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	$ 991,911	$ -	$ -	$ -	$ -	$ 4,663,528	$ 74,654	$ -	$ 5,730,093
Rural residential real estate									
Acceptable	$ 879,081	$ 2,845,845	$ 3,058,621	$ 1,826,413	$ 270,607	$ 804,422	$ -	$ -	$ 9,684,989
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	$ 879,081	$ 2,845,845	$ 3,058,621	$ 1,826,413	$ 270,607	$ 804,422	$ -	$ -	$ 9,684,989
Total Loans									
Acceptable	$ 38,251,045	$ 72,749,973	$ 81,035,312	$ 48,762,904	$ 26,518,237	$ 78,156,555	$ 8,922,415	$ -	$ 354,396,441
OAEM	1,860,922	1,746,359	-	266,098	-	740,682	2,215,983	-	6,830,044
Substandard/Doubtful	-	-	-	127,872	-	861,334	-	-	989,206
	$ 40,111,967	**$ 74,496,332**	**$ 81,035,312**	**$ 49,156,874**	**$ 26,518,237**	**$ 79,758,571**	**$ 11,138,398**	**$ -**	**$ 362,215,691**

The following table shows loans under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans by loan type:

	September 30, 2023		December 31, 2022	
Real estate mortgage				
Acceptable	**97.6**	%	99.0	%
OAEM	**2.1**		0.4	
Substandard/doubtful	**0.3**		0.6	
	100.0		100.0	
Production and intermediate-term				
Acceptable	**99.9**		99.9	
OAEM	**0.1**		0.1	
Substandard/doubtful	**-**		-	
	100.0		100.0	
Agribusiness				
Acceptable	**98.0**		94.7	
OAEM	**2.0**		-	
Substandard/doubtful	**-**		5.3	
	100.0		100.0	
Energy and water/waste-water				
Acceptable	**100.0**		94.9	
OAEM	**-**		-	
Substandard/doubtful	**-**		5.1	
	100.0		100.0	
Communication				
Acceptable	**100.0**		100.0	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100.0		100.0	
Rural residential real estate				
Acceptable	**100.0**		100.0	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100.0		100.0	
Total loans				
Acceptable	**97.8**		98.7	
OAEM	**1.9**		0.4	
Substandard/doubtful	**0.3**		0.9	
	100.0	%	100.0	%

Accrued interest receivable on loans of $2,585,889 million and $1,808,462 million on September 30, 2023 and December 31, 2022 have been excluded from the amortized cost of loans and reported separately in the Balance Sheet.

The following table reflects nonperforming assets, which consist of nonaccrual loans and other property owned and related credit quality statistics:

	September 30, 2023	December 31, 2022
Nonaccrual loans:		
Real estate mortgage	$ **722,193**	$ 1,531,950
Agribusiness	**-**	1,230,368
Rural residential real estate	**656**	-
Energy	**-**	270,164
Total nonaccrual loans	**722,849**	3,032,482
Accruing loans 90 days or more past due:		
Real estate mortgage	**-**	833,006
Total accruing loans 90 days or more past due	**-**	833,006
Total nonperforming assets	$ **722,849**	$ 3,865,488
Nonaccrual loans as a percentage of total loans	**0.20%**	0.83%
Nonperforming assets as a percentage of total loans and other property owned	**0.20%**	1.06%
Nonperforming assets as a percentage of capital	**1.05%**	5.70%

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:

	September 30, 2023			Interest Income Recognized	
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	For the Three Months Ended September 30,	For the Nine Months Ended September 30,
Nonaccrual loans:					
Real estate mortgage	$ 722,193	$ -	$ 722,193	$ 5,014	$ 122,499
Rural residential real estate	656	-	656	-	-
Processing and Marketing	-	-	-	4,462	4,462
Total nonaccrual loans	$ 722,849	$ -	$ 722,849	$ 9,476	$ 126,961

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

September 30, 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	$ 1,071,389	$ -	$ 1,071,389	$ 304,339,088	$ 305,410,477	$ -
Production and intermediate term	-	-	-	13,154,332	13,154,332	-
Loans to cooperatives	-	-	-	2,691,091	2,691,091	-
Processing and marketing	-	-	-	17,175,163	17,175,163	-
Farm-related business	-	-	-	2,339,193	2,339,193	-
Communication	-	-	-	8,559,033	8,559,033	-
Energy	-	-	-	2,748,298	2,748,298	-
Water and waste-water	-	-	-	3,003,936	3,003,936	-
Rural residential real estate	-	-	-	9,720,057	9,720,057	-
Total	$ 1,071,389	$ -	$ 1,071,389	$ 363,730,191	$ 364,801,580	$ -

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	$ -

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 real estate mortgage and rural residential real estate loans.

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 boards of directors have generally established more restrictive lending limits.

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

	Real Estate Mortgage	Production and Intermediate-Term	Agri-business	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Allowance for Credit Losses on Loans:								
Balance at June 30, 2023	$ (745,567)	$ (22,230)	$ (322,532)	$ (14,640)	$ (3,510)	$ (26,529)	$ -	$ (1,135,008)
Transfers to/from reserve for unfunded commitments	$ (68)	$ 463	$ 305	$ 604	$ -	$ -	$ (2)	$ 1,302
Recoveries	-	(900)	-	-	(27)	-	-	(927)
Provision for credit losses/(Loan loss reversal)	(97,468)	(3,965)	258,709	(24,368)	(1,580)	(3,566)	2	127,764
Balance at September 30, 2023	**$ (843,103)**	**$ (26,632)**	**$ (63,518)**	**$ (38,404)**	**$ (5,117)**	**$ (30,095)**	**$ 0**	$ (1,006,869)
Balance at December 31, 2022	$ (863,646)	$ (16,578)	$ (297,202)	$ (3,060)	$ (55,522)	$ (7,340)	$ -	$ (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	(825,333)	(31,262)	(331,156)	(8,779)	(56,673)	(24,933)	-	(1,278,136)
Transfers to/from reserve for unfunded commitments	$ (349)	$ (4,055)	$ (14,256)	$ 475	$ (15)	$ -	$ 41	$ (18,159)
Recoveries	-	(2,700)	-	-	(2,969)	-	-	(5,669)
Provision for loan losses (loan loss reversal)	(17,420)	11,385	281,894	(30,101)	54,540	(5,162)	(41)	295,095
Balance at September 30, 2023	**$ (843,102)**	**$ (26,632)**	**$ (63,518)**	**$ (38,405)**	**$ (5,117)**	**$ (30,095)**	**$ -**	**$ (1,006,869)**
Balance at June 30, 2022	$ 1,073,213	$ 319,200	$ 56,175	$ 3,049	$ 2,557	$ 6,864	$ -	$ 1,461,058
Recoveries	-	900	-	-	-	-	-	900
Provision for loan losses (loan loss reversal)	(201,414)	(302,582)	241,134	16	249,908	331	-	(12,607)
Balance at September 30, 2022	$ 871,799	$ 17,518	$ 297,309	$ 3,065	$ 252,465	$ 7,195	$ -	$ 1,449,351
Balance at December 31, 2021	$ 820,811	$ 301,325	$ 32,877	$ 2,994	$ 253,374	$ 6,025	$ -	$ 1,417,406
Recoveries	-	3,000	-	-	-	-	-	3,000
Provision for loan losses (loan loss reversal)	50,988	(286,807)	264,432	71	(909)	1,170	-	28,945
Balance at September 30, 2022	$ 871,799	$ 17,518	$ 297,309	$ 3,065	$ 252,465	$ 7,195	$ -	$ 1,449,351
Allowance for Unfunded Commitments:								
Balance at June 30, 2023	$ (78)	$ (2,191)	$ (16,934)	$ (514)	$ (3)	$ -	$ (63)	$ (19,783)
Provision for unfunded commitments	69	(464)	(305)	(604)	-	-	2	(1,302)
Balance at September 30, 2023	$ (9)	$ (2,655)	$ (17,239)	$ (1,118)	$ (3)	$ -	$ (61)	$ (21,085)
Balance at December 31, 2022	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cumulative effect of a change in accounting principle	(358)	(6,710)	(31,495)	(642)	(18)	-	(21)	(39,244)
Balance at January 1, 2023	(358)	(6,710)	(31,495)	(642)	(18)	-	(21)	(39,244)
Provision for unfunded commitments	349	4,055	14,256	(475)	15	-	(41)	18,159
Balance at September 30, 2023	**$ (9)**	**$ (2,655)**	**$ (17,239)**	**$ (1,117)**	**$ (3)**	**$ -**	**$ (62)**	**$ (21,085)**

[1] For periods prior to January 1, 2023, the allowance for loan losses was based on probable and estimable losses inherent in the loan portfolio.

The association did not materially modify any loans with borrowers experiencing financial difficulty as of September 30, 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 table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table:

	December 31, 2022	
	Loans Modified as Troubled Debt Restructurings	**Troubled Debt Restructurings in Nonaccrual Status***
Real estate mortgage	$ 1,508,034	$ 675,028
Energy	270,164	270,164
Total	$ 1,778,198	$ 945,192

*Represents the portion of loans modified as troubled debt restructurings that were in nonaccrual status.

NOTE 3 — CAPITAL:

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

Regulatory Capitalization Requirements

Risk-adjusted:	**Regulatory Minimums with Buffer**	**As of September 30, 2023**
Common equity tier 1 ratio	7.00%	18.52%
Tier 1 capital ratio	8.50%	18.52%
Total capital ratio	10.50%	18.85%
Permanent capital ratio	7.00%	18.58%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.00%	16.61%
UREE leverage ratio	1.50%	16.29%

The details for the amounts used in the calculation of the regulatory capital ratios as of September 30, 2023:

		Common equity tier 1 ratio		Tier 1 capital ratio		Total capital ratio		Permanent capital ratio
Numerator:								
Unallocated retained earnings	$	43,508,080	$	43,508,080	$	43,508,080	$	43,508,080
Statutory minimum purchased borrower stock		1,179,097		1,179,097		1,179,097		1,179,097
Nonqualified allocated equities not subject to retirement		22,858,251		22,858,251		22,858,251		22,858,251
Allowance for loan losses and reserve for credit losses subject to certain limitations		-		-		1,073,375		-
Regulatory Adjustments and Deductions:								
Amount of allocated investments in other System institutions		(6,016,770)		(6,016,770)		(6,016,770)		(6,016,770)
	$	61,528,658	$	61,528,658	$	62,602,033	$	61,528,658
Denominator:								
Risk-adjusted assets excluding allowance	$	338,183,394	$	338,183,394	$	338,183,394	$	338,183,394
Regulatory Adjustments and Deductions:								
Regulatory deductions included in total capital		(6,016,770)		(6,016,770)		(6,016,770)		(6,016,770)
Allowance for loan losses		-		-		-		(1,053,437)
	$	**332,166,624**	**$**	**332,166,624**	**$**	**332,166,624**	**$**	**331,113,187**
Calculated Ratio		**18.52%**		**18.52%**		**18.85%**		**18.58%**

		Tier 1 leverage ratio		UREE leverage ratio
Numerator:				
Unallocated retained earnings	$	43,508,080	$	43,508,080
Common Cooperative Equities:				
Statutory minimum purchased borrower stock		1,179,097		-
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		(6,016,770)		(6,016,770)
	$	**61,528,658**	**$**	**60,349,561**
Denominator:				
Total Assets	$	377,443,071	$	377,443,071
Regulatory Adjustments and Deductions:				
Regulatory deductions included in tier 1 capital		(7,057,162)		(7,057,162)
	$	**370,385,909**	**$**	**370,385,909**
Calculated Ratio		**16.61%**		**16.29%**

During the third quarter, the FCA noted that Legacy had been including in nonqualified allocated equities the patronage sourced income not otherwise paid out in a cash patronage, without addressing such in annual patronage payment resolutions. Legacy has since resolved the issue with respect to prior years' resolutions and will specify in future patronage payment resolutions a specified dollar amount of such equities and the board's intention to count those equities as URE equivalents, subject to the requirement of FCA regulation 628.

		September 30, 2023		December 31, 2022
Capital stock and participation certificates	**$**	**1,168,355**	$	1,192,520
Accumulated other comprehensive loss		**57,672**		60,450
Non-qualified allocated retained earnings		**22,858,251**		21,076,255
Unallocated retained earnings[1]		**44,883,194**		45,466,759
Total Capital	**$**	**68,967,472**	$	67,795,984

[1] Retained earnings for the quarter ended September 30, 2023, reflects an increase/decrease from the cumulative effect of a change in accounting principle for CECL on January 1, 2023.

The following tables present the activity in the accumulated other comprehensive loss, net of tax by component:

Accumulated Other Comprehensive Income (Loss)	
September 30, 2023	**Net of Tax**
Nonpension postretirement benefits	**$ 57,672**
September 30, 2022	Net of Tax
Nonpension postretirement benefits	$ 239

The association's accumulated other comprehensive income (loss) relates entirely to its non-pension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income (loss) for the nine months ended September 30:

	2023	**2022**
Accumulated other comprehensive income (loss) at January 1	**$ 60,450**	$ 1,412
Amortization of prior service (credit) costs included in salaries and employee benefits	**(1,175)**	(1,173)
Amortization of actuarial (gain) loss included in salaries and employee benefits	**(1,603)**	-
Other comprehensive income (loss), net of tax	**(2,778)**	(1,173)
Accumulated other comprehensive income (loss) at September 30	**$ 57,672**	$ 239

NOTE 4 — INCOME TAXES:

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

NOTE 5 — FAIR VALUE MEASUREMENTS:

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 13 in the 2022 Annual Report to Stockholders for a more complete description.

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

June 30, 2023	**Fair Value Measurement Using**			**Total Fair**	**Total Gains**
	Level 1	**Level 2**	**Level 3**	**Value**	**(Losses)**
Assets:					
Loans	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

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

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

Valuation Techniques

As more fully discussed in Note 13 to the 2022 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the association's assets and liabilities. For a more complete description, see the 2022 Annual Report to Stockholders.

Loans Evaluated for Impairment
For certain loans evaluated for impairment under FASB 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 6 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the three and nine months ended September 30:

Three months ended September 30:

	Other Benefits	
	2023	**2022**
Service cost	**$ 862**	$ 1,332
Interest cost	**2,769**	2,162
Amortization of prior service (credits) costs	**(391)**	(391)
Amortization of net actuarial (gain) loss	**(535)**	-
Net periodic benefit cost	**$ 2,705**	$ 3,103

Nine months ended September 30:

	Other Benefits	
	2023	**2022**
Service cost	**$ 2,585**	$ 3,996
Interest cost	**8,309**	6,485
Expected return on plan assets	**-**	-
Amortization of prior service (credits) costs	**(1,175)**	(1,173)
Amortization of net actuarial (gain) loss	**(1,603)**	-
Net periodic benefit cost	**$ 8,116**	$ 9,308

The association's liability for the unfunded accumulated obligation for these benefits on September 30, 2023, was $221,871 and is included in other liabilities on the balance sheet.

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

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations). The association recognizes its amortized annual contributions to the plan as an expense. The association previously disclosed in its financial statements for the year ended December 31, 2022, that it expected to contribute $14,382 to the district's defined benefit pension plan in 2023. As of September 30, 2023, $10,787 of contributions have been made. The association presently anticipates contributing an additional $3,595 to fund the defined benefit pension plan in 2023 for a total of $14,382.

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:

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

NOTE 8 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through November 7, 2023, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 7, 2023.