

LEGACY AG CREDIT, ACA

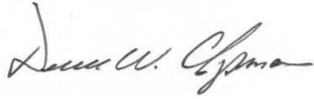
2022 Quarterly Report



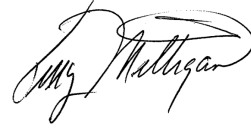
For the Three Months Ended March 31, 2022

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
May 10, 2022



Terry Milligan, Chairman, Board of Directors
May 10, 2022



Heather Johnson, CPA, Chief Financial Officer
May 10, 2022



Cheryl Scott, CPA, Chair, Audit Committee
May 10, 2022

First Quarter 2022 Financial Report

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LEGACY AG CREDIT, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(dollars in thousands, except as noted)

The following commentary reviews the financial performance of the Legacy Ag Credit, ACA ("Legacy" or "association"), for the quarter ended March 31, 2022. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2021 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:

American Rescue Plan Act of 2021

The American Rescue Plan Act of 2021 ("Plan"), signed into law on March 11, 2021, includes provisions for the U.S. Department of Agriculture ("USDA") to pay \$4 billion toward debt relief for socially disadvantaged farmers and ranchers with qualifying Farm Service Agency ("FSA") Direct and Guaranteed Farm Loans and Farm Storage Facility Loans ("FSFL"). Credit enhancement programs offered by the USDA/FSA have been an important part of Legacy's lending efforts, allowing the association increased exposure to the poultry industry in its loan portfolio. Legacy has identified a certain segment of its portfolio which could potentially qualify for debt relief under the Plan. Any such repayments could materially impact loan growth goals and net income for 2022 and beyond. It is too early to ascertain the exact impact on the portfolio; therefore, developments are being closely monitored.

Loan Portfolio

Total loans outstanding at March 31, 2022, including nonaccrual loans and sales contracts, were \$355,150,047 compared to \$344,279,818 at December 31, 2021, reflecting an increase of 3.16%. Nonaccrual loans as a percentage of total loans outstanding were 0.74% at March 31, 2022, compared to 0.78% at December 31, 2021.

The association recorded \$1,200 in recoveries and \$0 in charge-offs for the quarter ended March 31, 2022, and \$900 in recoveries and \$9,906 in charge-offs for the same period in 2021. The association's allowance for loan losses was 0.40% and 0.41% of total loans outstanding as of March 31, 2022, and December 31, 2021, respectively.

Risk Exposure

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

	March 31, 2022		December 31, 2021	
	Amount	%	Amount	%
Nonaccrual	\$ 2,620,538	74.8%	\$ 2,681,965	74.9%
Formally restructured	881,686	25.2%	900,039	25.1%
Total	<u>\$ 3,502,224</u>	<u>100.0%</u>	<u>\$ 3,582,004</u>	<u>100.0%</u>

Results of Operations

The association had net income of \$1,251,275 for the three months ended March 31, 2022, as compared to net income of \$983,301 for the same period in 2021, reflecting an increase of 27.25%. Net interest income was \$2,411,390 for the three months ended March 31, 2022, compared to \$2,179,831 for the same period in 2021.

	Three Months Ended			
	March 31, 2022		March 31, 2021	
	Average Balance	Interest	Average Balance	Interest
Loans	\$350,371,471	\$ 3,907,968	\$ 306,849,922	\$ 3,482,282
Interest-bearing liabilities	293,196,734	1,496,578	251,134,678	1,302,451
Impact of capital	<u>\$ 57,174,737</u>		<u>\$ 55,715,244</u>	
Net interest income		<u>\$ 2,411,390</u>		<u>\$ 2,179,831</u>

	2022 Average Yield	2021 Average Yield
Yield on loans	4.52%	4.60%
Cost of interest-bearing liabilities	2.07%	2.10%
Interest rate spread	2.45%	2.50%
Net interest income as a percentage of average earning assets	2.79%	2.88%

Three months ended: March 31, 2022 vs. March 31, 2021			
Increase (decrease) due to			
	Volume	Rate	Total
Interest income - loans	\$ 493,899	\$ (68,213)	\$ 425,686
Interest expense	218,143	(24,016)	194,127
Net interest income	<u>\$ 275,756</u>	<u>\$ (44,197)</u>	<u>\$ 231,559</u>

Interest income for the three months ended March 31, 2022, increased by \$425,686, or 12.22 from the same period of 2021, primarily due to an increase in loan volume that was partially offset by declines in yields on earning assets. Interest expense for the three months ended March 31, 2022, increased by \$194,127 from the same period of 2021 due to a slight decrease in the cost of interest-bearing liabilities offset by an increase in note payable. Average loan volume for the first quarter of 2022 was \$350,371,471, compared to \$306,849,922 in the first quarter of 2021. The average net interest rate spread on the loan portfolio for the first quarter of 2022 was 2.45%, compared to 2.50% in the first quarter of 2021.

The association's return on average assets for the three months ended March 31, 2022, was 1.41% compared to 1.26% for the same period in 2021. The association's return on average equity for the three months ended March 31, 2022, was 7.86%, compared to 6.44% for the same period in 2021.

Liquidity and Funding Sources

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

	March 31, 2022	December 31, 2021
Note payable to the bank	\$300,302,302	\$ 286,451,817
Accrued interest on note payable	529,863	495,812
Total	<u>\$300,832,165</u>	<u>\$ 286,947,629</u>

The association operates under a general financing agreement (GFA) with the bank. The current GFA is effective through September 30, 2022. The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of \$300,302,302 as of March 31, 2022, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 2.07% at March 31, 2022. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by the general financing agreement. The increase in note payable to the bank and related accrued interest payable since December 31, 2021, is due to the association's increase in loan volume. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, was \$53,620,928 at March 31, 2022. The maximum amount the association may borrow from the bank as of March 31, 2022, was \$351,903,546 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,

2022, 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 decreased by \$1,559,858 at March 31, 2022, compared to December 31, 2021 due to the establishment of a \$2,845,692 patronage payable during the first quarter of 2022. The association's debt as a ratio of members' equity was 4.78:1 as of March 31, 2022, compared to 4.45:1 as of December 31, 2021.

Farm Credit Administration regulations require us to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of March 31, 2022, 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 2021 Annual Report of Legacy Ag Credit, ACA more fully describe the association's relationship with the bank.

The annual and quarterly stockholder reports of the 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, or by calling (512) 483-9204. The annual and quarterly stockholder reports for the bank are also available on its website at www.farmcreditbank.com.

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

LEGACY AG CREDIT, ACA

CONSOLIDATED BALANCE SHEETS

	March 31, 2022 (unaudited)	December 31, 2021
<u>ASSETS</u>		
Cash	\$ 105,810	\$ 104,802
Loans	355,150,047	344,279,818
Less: allowance for loan losses	1,435,386	1,417,406
Net loans	353,714,661	342,862,412
Accrued interest receivable	1,794,106	1,188,891
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	5,192,520	5,192,520
Other	722,331	177,250
Premises and equipment, net	4,301,160	4,276,339
Other assets	300,046	192,012
Total assets	<u>\$ 366,130,634</u>	<u>\$ 353,994,226</u>
<u>LIABILITIES</u>		
Note payable to the Farm Credit Bank of Texas	\$ 300,302,302	\$ 286,451,817
Advance conditional payments	-	1,433
Accrued interest payable	529,874	495,920
Drafts outstanding	78,516	178,325
Other liabilities	1,864,293	1,951,224
Total liabilities	<u>302,774,985</u>	<u>289,078,719</u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	1,206,810	1,171,860
Unallocated retained earnings	62,147,818	63,742,235
Accumulated other comprehensive income (loss)	1,021	1,412
Total members' equity	<u>63,355,649</u>	<u>64,915,507</u>
Total liabilities and members' equity	<u>\$ 366,130,634</u>	<u>\$ 353,994,226</u>

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

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Three Months Ended March 31,	
	2022	2021
<u>INTEREST INCOME</u>		
Loans	\$ 3,907,968	\$ 3,482,282
<u>INTEREST EXPENSE</u>		
Note payable to the Farm Credit Bank of Texas	1,496,578	1,302,451
Net interest income	2,411,390	2,179,831
<u>PROVISION FOR LOAN LOSSES</u>	16,780	66,893
Net interest income after provision for loan losses	2,394,610	2,112,938
<u>NONINTEREST INCOME</u>		
Income from the Farm Credit Bank of Texas:		
Patronage income	500,555	361,458
Loan fees	107,677	167,799
Financially related services income	78	72
Gain (loss) on sale of premises and equipment, net	-	69,915
Other noninterest income	47,092	36,997
Total noninterest income	655,402	636,241
<u>NONINTEREST EXPENSES</u>		
Salaries and employee benefits	1,127,588	1,097,783
Directors' expense	81,858	43,989
Purchased services	134,603	163,294
Travel	70,258	47,725
Occupancy and equipment	132,856	123,933
Communications	22,394	27,870
Advertising	27,953	56,825
Public and member relations	30,386	40,108
Supervisory and exam expense	30,061	28,694
Insurance Fund premiums	89,062	76,155
Other components of net periodic postretirement benefit cost	1,771	1,537
Other noninterest expense	49,947	57,965
Total noninterest expenses	1,798,737	1,765,878
<u>NET INCOME</u>	1,251,275	983,301
Other comprehensive income:		
Change in postretirement benefit plans	(391)	(391)
<u>COMPREHENSIVE INCOME</u>	\$ 1,250,884	\$ 982,910

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

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2020	\$ 1,084,410	\$ 62,004,242	\$ 6,987	\$ 63,095,639
Comprehensive income	-	983,301	(391)	982,910
Capital stock/participation certificates and allocated retained earnings issued	63,340			63,340
Capital stock/participation certificates and allocated retained earnings retired	(41,390)			(41,390)
Patronage payable		(2,469,972)		(2,469,972)
Balance at March 31, 2021	<u>\$ 1,106,360</u>	<u>\$ 60,517,571</u>	<u>\$ 6,596</u>	<u>\$ 61,630,527</u>
Balance at December 31, 2021	\$ 1,171,860	\$ 63,742,235	\$ 1,412	\$ 64,915,507
Comprehensive income	-	1,251,275	(391)	1,250,884
Capital stock/participation certificates and allocated retained earnings issued	69,055			69,055
Capital stock/participation certificates and allocated retained earnings retired	(34,105)			(34,105)
Patronage payable		(2,845,692)		(2,845,692)
Balance at March 31, 2022	<u>\$ 1,206,810</u>	<u>\$ 62,147,818</u>	<u>\$ 1,021</u>	<u>\$ 63,355,649</u>

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

LEGACY AG CREDIT, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

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

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2021, as contained in the 2021 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2021, as contained in the 2021 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2022. Descriptions of the significant accounting policies are included in the 2021 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In June 2016, the FASB issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain entities. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those entities qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. System institutions qualify for the delay in the adoption date. The System continues to evaluate the impact of adoption on the System’s financial condition and its results of operations.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management’s estimates. The results for the quarter ended March 31, 2022, are not necessarily indicative of the results to be expected for the year ended December 31, 2022. Certain amounts in the prior period’s financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	March 31, 2022	December 31, 2021
	Amount	Amount
Production agriculture:		
Real estate mortgage	\$ 292,736,499	\$ 284,813,145
Production and intermediate term	12,438,714	13,434,786
Agribusiness:		
Loans to cooperatives	5,097,109	3,172,038
Processing and marketing	17,905,644	17,597,455
Farm-related business	3,170,187	3,122,997
Communication	7,093,674	7,107,097
Energy	4,561,944	4,866,302
Water and waste water	1,997,993	2,799,587
Rural residential real estate	8,148,547	7,366,411
International	1,999,736	-
Total	<u>\$ 355,150,047</u>	<u>\$ 344,279,818</u>

The association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at March 31, 2022:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations	Participations	Participations	Participations	Participations	Participations
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$ 4,852,801	\$ 10,018,756	\$ -	\$ -	\$ 4,852,801	\$ 10,018,756
Production and intermediate term	3,508,641	-	-	-	3,508,641	-
Agribusiness	26,172,939	-	-	-	26,172,939	-
Communication	7,093,674	-	-	-	7,093,674	-
Energy	4,561,944	-	-	-	4,561,944	-
Water and waste water	1,997,993	-	-	-	1,997,993	-
International	1,999,736	-	-	-	1,999,736	-
Total	<u>\$ 50,187,728</u>	<u>\$ 10,018,756</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,187,728</u>	<u>\$ 10,018,756</u>

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 \$0 and \$1,433 at March 31, 2022, and December 31, 2021, respectively.

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

	March 31, 2022	December 31, 2021
Nonaccrual loans:		
Real estate mortgage	\$ 1,469,399	\$ 1,530,827
Production and intermediate term	152,020	152,020
Energy	999,118	999,118
Total nonaccrual loans	<u>2,620,537</u>	<u>2,681,965</u>
Accruing restructured loans:		
Real estate mortgage	881,686	900,039
Total nonperforming assets	<u>\$ 3,502,223</u>	<u>\$ 3,582,004</u>

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

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

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

	March 31, 2022	December 31, 2021
Real estate mortgage		
Acceptable	98.4 %	98.7 %
OAEM	0.7	0.5
Substandard/doubtful	0.9	0.8
	100.0	100.0
Production and intermediate term		
Acceptable	98.2	98.4
OAEM	0.3	0.1
Substandard/doubtful	1.5	1.5
	100.0	100.0
Agribusiness		
Acceptable	96.0	100.0
OAEM	4.0	-
Substandard/doubtful	-	-
	100.0	100.0
Energy and water/waste water		
Acceptable	84.8	87.0
OAEM	-	-
Substandard/doubtful	15.2	13.0
	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
Agricultural export finance		
Acceptable	100.0	-
OAEM	-	-
Substandard/doubtful	-	-
	100.0	-
Total loans		
Acceptable	98.1	98.5
OAEM	0.9	0.4
Substandard/doubtful	1.0	1.1
	100.0 %	100.0 %

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

<u>March 31, 2022</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total Past Due</u>	<u>Not Past Due or Less Than 30 Days Past Due</u>	<u>Total Loans</u>
Real estate mortgage	\$ 524,811	\$ 679,400	\$ 1,204,211	\$ 293,143,268	\$ 294,347,479
Production and intermediate term	-	-	-	12,528,062	12,528,062
Loans to cooperatives	-	-	-	5,102,936	5,102,936
Processing and marketing	-	-	-	17,947,806	17,947,806
Farm-related business	-	-	-	3,174,818	3,174,818
Communication	-	-	-	7,094,150	7,094,150
Energy	-	999,118	999,118	3,571,270	4,570,388
Water and waste water	-	-	-	2,008,215	2,008,215
Rural residential real estate	14,004	-	14,004	8,156,274	8,170,278
International	-	-	-	2,000,021	2,000,021
Total	\$ 538,815	\$ 1,678,518	\$ 2,217,333	\$ 354,726,820	\$ 356,944,153

<u>December 31, 2021</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total Past Due</u>	<u>Not Past Due or Less Than 30 Days Past Due</u>	<u>Total Loans</u>
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

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

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

As of March 31, 2022, the total recorded investment of troubled debt restructured loans was \$1,550,917, including \$669,231 classified as nonaccrual and \$881,686 classified as accrual, with specific allowance for loan losses of \$289,932. The specific allowance is determined quarterly through a net realizable value analysis for each individual loan asset. As of March 31, 2022 and December 31, 2021, there were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring.

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). There were no charge-offs recorded at the modifications for the quarter ending March 31, 2022.

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

There were no loans that met the accounting criteria as a troubled debt restructuring and that occurred within the previous 12 months and for which there was a subsequent payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	March 31, 2022	December 31, 2021	March 31, 2022	December 31, 2021
Real estate mortgage	\$ 1,550,917	\$ 1,547,017	\$ 669,231	\$ 646,978
Total	\$ 1,550,917	\$ 1,547,017	\$ 669,231	\$ 646,978

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

Additional impaired loan information is as follows:

	March 31, 2022			December 31, 2021		
	Recorded Investment	Unpaid Principal Balance ^a	Related Allowance	Recorded Investment	Unpaid Principal Balance ^a	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	\$ 669,231	\$ 669,231	\$ 289,932	\$ 646,978	\$ 646,978	\$ 271,324
Energy and water/waste water	999,118	999,950	250,000	999,118	999,950	250,000
Total	<u>\$1,668,349</u>	<u>\$ 1,669,181</u>	<u>\$ 539,932</u>	<u>\$ 1,646,096</u>	<u>\$1,646,928</u>	<u>\$ 521,324</u>
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$1,681,854	\$ 1,717,962	\$ -	\$ 1,783,889	\$1,814,356	\$ -
Production and intermediate term	152,020	507,360	-	152,019	508,559	-
Total	<u>\$1,833,874</u>	<u>\$ 2,225,322</u>	<u>\$ -</u>	<u>\$ 1,935,908</u>	<u>\$2,322,915</u>	<u>\$ -</u>
Total impaired loans:						
Real estate mortgage	\$2,351,085	\$ 2,387,193	\$ 289,932	\$ 2,430,867	\$2,461,334	\$ 271,324
Production and intermediate term	152,020	507,360	-	152,019	508,559	-
Energy and water/waste water	999,118	999,950	250,000	999,118	999,950	250,000
Total	<u>\$3,502,223</u>	<u>\$ 3,894,503</u>	<u>\$ 539,932</u>	<u>\$ 3,582,004</u>	<u>\$3,969,843</u>	<u>\$ 521,324</u>

^a Unpaid principal balance represents the recorded principal balance of the loan.

For the Three Months Ended				
	March 31, 2022		March 31, 2021	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	\$ 660,718	\$ -	\$ 796,246	\$ -
Production and intermediate term	-	-	8,045	-
Energy and water/waste water	999,118	-	-	-
Total	<u>\$1,659,836</u>	<u>\$ -</u>	<u>\$ 804,291</u>	<u>\$ -</u>
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$1,705,328	\$ 11,558	\$2,216,750	\$ 36,714
Production and intermediate term	152,020	-	24,613	618
Total	<u>\$1,857,348</u>	<u>\$ 11,558</u>	<u>\$2,241,363</u>	<u>\$ 37,332</u>
Total impaired loans:				
Real estate mortgage	\$2,366,046	\$ 11,558	\$3,012,996	\$ 36,714
Production and intermediate term	152,020	-	32,658	618
Energy and water/waste water	999,118	-	-	-
Total	<u>\$3,517,184</u>	<u>\$ 11,558</u>	<u>\$3,045,654</u>	<u>\$ 37,332</u>

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at December 31, 2021	\$ 820,811	\$ 301,325	\$ 32,877	\$ 2,994	\$ 253,374	\$ 6,025	\$ 1,417,406
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	1,200	-	-	-	-	1,200
Provision for loan losses	240,978	12,003	13,253	60	(250,173)	659	16,780
Balance at March 31, 2022	<u>\$ 1,061,789</u>	<u>\$ 314,528</u>	<u>\$ 46,130</u>	<u>\$ 3,054</u>	<u>\$ 3,201</u>	<u>\$ 6,684</u>	<u>\$ 1,435,386</u>
Ending Balance:							
Individually evaluated for impairment	\$ 289,932	\$ -	\$ -	\$ -	\$ 250,000	\$ -	\$ 539,932
Collectively evaluated for impairment	771,856	314,530	46,130	3,054	(246,799)	6,683	895,454
Balance at March 31, 2022	<u>\$ 1,061,788</u>	<u>\$ 314,530</u>	<u>\$ 46,130</u>	<u>\$ 3,054</u>	<u>\$ 3,201</u>	<u>\$ 6,683</u>	<u>\$ 1,435,386</u>
Balance at December 30, 2020	\$ 750,304	\$ 362,065	\$ 45,392	\$ 4,184	\$ 6,668	\$ 4,829	\$ 1,173,442
Charge-offs	(9,906)	-	-	-	-	-	(9,906)
Recoveries	-	900	-	-	-	-	900
Provision for loan losses	29,573	(18,195)	(607)	600	55,717	(195)	66,893
Balance at March 31, 2021	<u>\$ 769,971</u>	<u>\$ 344,770</u>	<u>\$ 44,785</u>	<u>\$ 4,784</u>	<u>\$ 62,385</u>	<u>\$ 4,634</u>	<u>\$ 1,231,329</u>
Ending Balance:							
Individually evaluated for impairment	\$ 8,817	\$ 278,513	\$ -	\$ -	\$ -	\$ -	\$ 287,330
Collectively evaluated for impairment	761,154	66,257	44,785	4,784	62,385	4,634	943,999
Balance at March 31, 2021	<u>\$ 769,971</u>	<u>\$ 344,770</u>	<u>\$ 44,785</u>	<u>\$ 4,784</u>	<u>\$ 62,385</u>	<u>\$ 4,634</u>	<u>\$ 1,231,329</u>

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Total
Recorded Investments in Loans Outstanding:								
Ending Balance at March 31, 2022	<u>\$ 294,347,476</u>	<u>\$ 12,528,062</u>	<u>\$26,225,561</u>	<u>\$ 7,094,150</u>	<u>\$ 6,578,604</u>	<u>\$8,170,279</u>	<u>\$ 2,000,021</u>	<u>\$ 356,944,153</u>
Individually evaluated for impairment	<u>\$ 2,351,085</u>	<u>\$ 152,020</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 999,118</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,502,223</u>
Collectively evaluated for impairment	<u>\$ 291,996,391</u>	<u>\$ 12,376,042</u>	<u>\$26,225,561</u>	<u>\$ 7,094,150</u>	<u>\$ 5,579,485</u>	<u>\$8,170,279</u>	<u>\$ 2,000,021</u>	<u>\$ 353,441,930</u>
Ending Balance at December 31, 2021	<u>\$ 285,851,134</u>	<u>\$ 13,488,398</u>	<u>\$ 23,931,345</u>	<u>\$ 7,107,507</u>	<u>\$ 7,704,746</u>	<u>\$ 7,385,579</u>	<u>\$ -</u>	<u>\$ 345,468,709</u>
Individually evaluated for impairment	<u>\$ 2,430,866</u>	<u>\$ 152,020</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 999,118</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,582,004</u>
Collectively evaluated for impairment	<u>\$ 283,420,268</u>	<u>\$ 13,336,378</u>	<u>\$ 23,931,345</u>	<u>\$ 7,107,507</u>	<u>\$ 6,705,628</u>	<u>\$ 7,385,579</u>	<u>\$ -</u>	<u>\$ 341,886,705</u>

NOTE 3 — CAPITAL:

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

Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Requirements Including Capital Conservation Buffers	As of March 31, 2022
Common equity tier 1 ratio	7.00%	18.67%
Tier 1 capital ratio	8.50%	18.67%
Total capital ratio	10.50%	19.12%
Permanent capital ratio	7.00%	18.76%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.00%	16.79%
UREE leverage ratio	1.50%	16.45%

The details for the amounts used in the calculation of the regulatory capital ratios as of March 31, 2022:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	\$ 43,547,909	\$ 43,547,909	\$ 43,547,909	\$ 43,547,909
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	1,187,705	1,187,705	1,187,705	1,187,705
Nonqualified allocated equities not subject to retirement	20,081,509	20,081,509	20,081,509	20,081,509
Allowance for loan losses and reserve for credit losses subject to certain limitations			1,436,482	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(5,173,703)	(5,173,703)	(5,173,703)	(5,173,703)
	<u>\$ 59,643,420</u>	<u>\$ 59,643,420</u>	<u>\$ 61,079,902</u>	<u>\$ 59,643,420</u>
Denominator:				
Risk-adjusted assets excluding allowance	\$ 324,611,284	\$ 324,611,284	\$ 324,611,284	\$ 324,611,284
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(5,173,703)	(5,173,703)	(5,173,703)	(5,173,703)
Allowance for loan losses				(1,436,482)
	<u>\$ 319,437,581</u>	<u>\$ 319,437,581</u>	<u>\$ 319,437,581</u>	<u>\$ 318,001,099</u>
Calculated Ratio	18.67%	18.67%	19.12%	18.76%

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	\$ 43,547,909	\$ 43,547,909
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	1,187,705	-
Allocated equities:		
Nonqualified allocated equities not subject to retirement	20,081,509	20,081,509
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(5,173,703)	(5,173,703)
	<u>\$ 59,643,420</u>	<u>\$ 58,455,715</u>
Denominator:		
Total Assets	\$ 361,798,527	\$ 361,798,527
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(6,484,006)	(6,484,006)
	<u>\$ 355,314,521</u>	<u>\$ 355,314,521</u>
Calculated Ratio	16.79%	16.45%

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

Accum Other Comp Income (Loss)	
March 31, 2022	Net of Tax
Nonpension postretirement benefits	\$ 1,021
March 31, 2021	Net of Tax
Nonpension postretirement benefits	\$ 6,596

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

	2022	2021
Accumulated other comprehensive income (loss) at January 1	\$ 1,412	\$ 6,987
Amortization of prior service (credit) costs included in salaries and employee benefits	(391)	(391)
Other comprehensive income (loss), net of tax	(391)	(391)
Accumulated other comprehensive income (loss) at March 31	<u>\$ 1,021</u>	<u>\$ 6,596</u>

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:

FASB 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 to the 2021 Annual Report to Stockholders for a more complete description.

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

<u>March 31, 2022</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans*	\$ -	\$ -	\$ 1,128,418	\$ 1,128,418
<u>December 31, 2021</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans*	\$ -	\$ -	\$ 1,124,772	\$ 1,124,772

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

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

Valuation Techniques

As more fully discussed in Note 13 to the 2021 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the association’s assets and liabilities. For a more complete description, see Notes to the 2021 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.

Other Property Owned

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

Cash

For cash, the carrying amount is a reasonable estimate of fair value.

Loans

Fair value is estimated by discounting the expected future cash flows using the associations’ current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the associations’ current loan origination rates as well as management’s estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

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

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

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

Three months ended March 31:

	Other Benefits	
	2022	2021
Service cost	\$ 1,332	\$ 2,069
Interest cost	2,162	1,928
Amortization of prior service (credits) costs	(391)	(391)
Net periodic benefit cost	\$ 3,103	\$ 3,606

The association's liability for the unfunded accumulated obligation for these benefits at March 31, 2022, was \$287,373 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 defined benefit Plan Sponsor (FCBT Board of Directors) recommended in prior years that the district associations make up a shortfall in the pension plan funding based on current assumptions including projected future funding costs and rate of return on plan assets. As of March 31, 2022, \$6,290 of contributions have been made. The association presently anticipates contributing an additional \$18,870 to fund the defined benefit pension plan in 2022 for a total of \$25,160.

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 May 10, 2022, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of this date.