AgHeritage®
Farm Credit Services

2022
ANNUAL REPORT

FARM CREDIT

ONE MISSION | MANY VOICES

Farm Credit supports rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow.

DEEP ROOTS IN RURAL AMERICA

Farm Credit is a nationwide network of customer-owned financial institutions that provides loans and related financial services to U.S. farmers and ranchers, farmer-owned cooperatives, rural homebuyers, agribusinesses and rural infrastructure providers.

As customer-owned cooperatives, Farm Credit institutions are governed by the customers they serve and have a specific mission to support rural communities and agriculture – in good times and bad. Farm Credit loans help U.S. agricultural producers feed the world, rural businesses grow and the rural economy thrive. Our infrastructure lending helps bring clean water to rural families, modern telecommunications to help rural businesses compete and reliable energy to rural communities.

Farm Credit's mission remains just as vital today as it was when we made our first loan more than 100 years ago. For more information about Farm Credit and how we support rural communities and agriculture, please visit **www.farmcredit.com.**

SUPPORT

Make loans to more than 500,000 customers, including farmers, ranchers, farmer-owned co-ops and agribusinesses in every state. Also finance exports of U.S. agriculture products.

RURAL COMMUNITIES

Support development of rural infrastructure, including water, telecommunications, electricity and transportation across the country.

AGRICULTURE

Serve approximately 40 percent of the agriculture sector's credit needs.

CREDIT & FINANCIAL SERVICES

Make loans for agriculture real estate and home mortgages, farm operations, equipment purchases, agribusiness operations, U.S. agricultural exports and infrastructure construction and operations. Provide financial services, including, crop insurance, credit life insurance and more.

RELIABLE & CONSISTENT

Provide a steady source of capital needed to support customers through good times and bad.

TODAY & TOMORROW

Lead the way in providing credit to young, beginning and small farmers and ranchers.

BIO-STAR:

Was designed to portray Farm Credit as a strong, unified national network ready to meet the challenges of a changing and competitive financial industry.

The BioStar is a symbol of progress and commitment consisting of five visual elements: three leaves, a root system and a star. The leaves represent the three types of lending done by the Farm Credit System – long-term real estate, short-term operating and cooperative financing. The roots represent our member-borrowers, and the star represents light and direction. The prefix "Bio" describes life, while the suffix "Star" captures the strong energetic shape within the symbol.

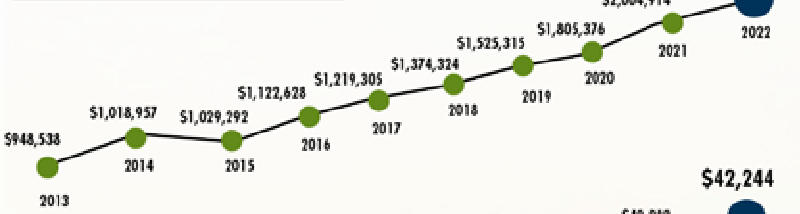
SERVING
6,247
MEMBERS ACROSS
24 COUNTIES

AGHERITAGE
FARM CREDIT SERVICES
AT A GLANCE

9
BRANCH LOCATIONS

Batesville	Brinkley	Lonoke
Pocahontas	McGehee	Newport
Pine Bluff	Searcy	Stuttgart

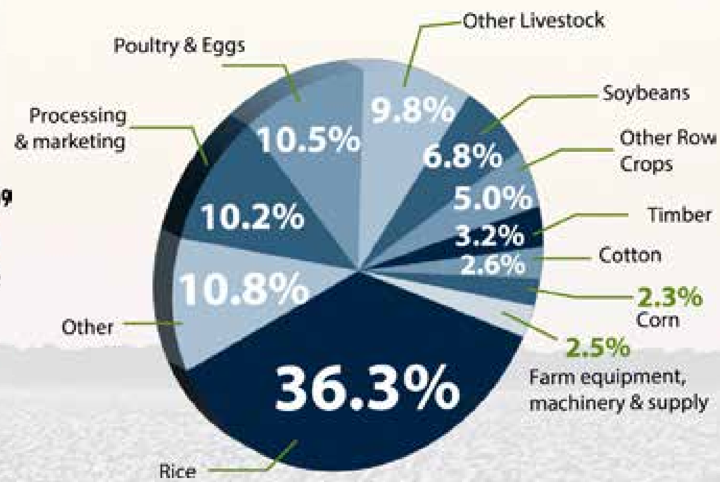
TOTAL ASSETS



ASSETS & GROWTH
$2.20 BILLION
IN TOTAL ASSETS

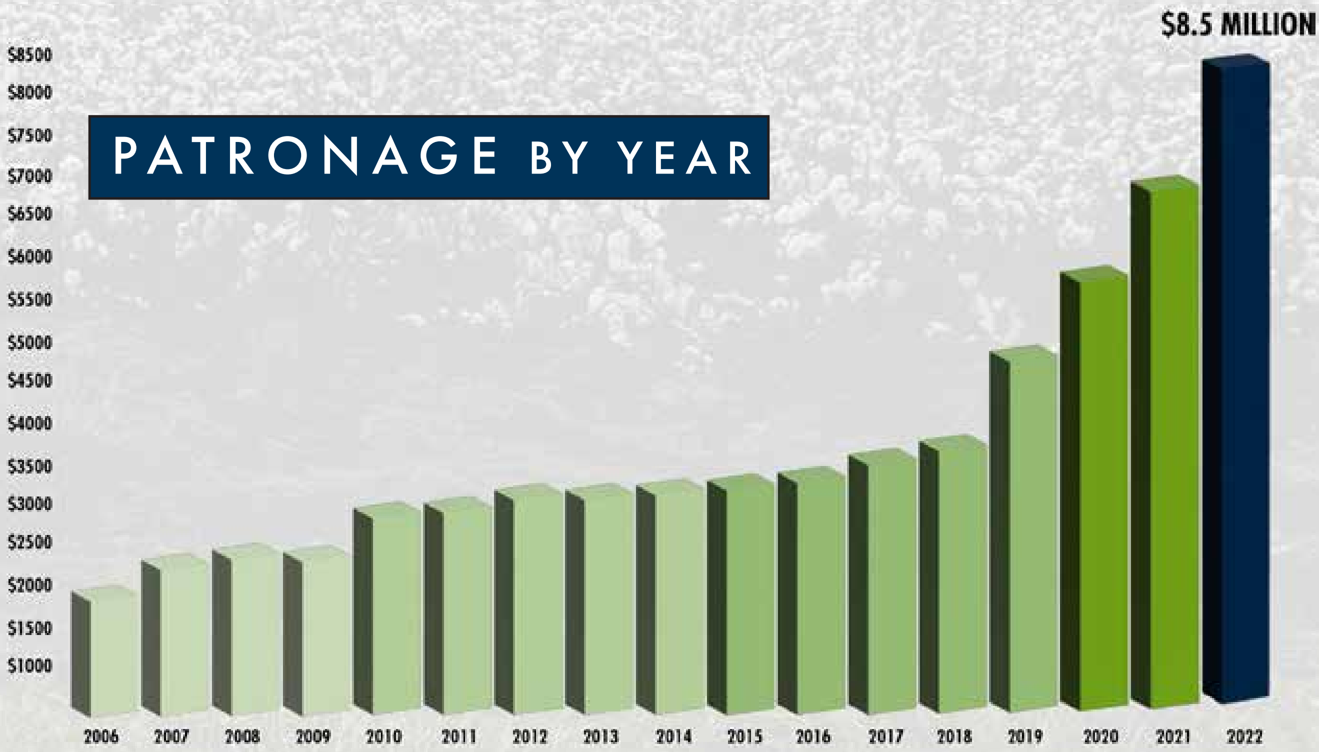
NET INCOME

OUR PORTFOLIO



TOTAL CAPITAL

PATRONAGE BY YEAR



BOARD OF DIRECTORS

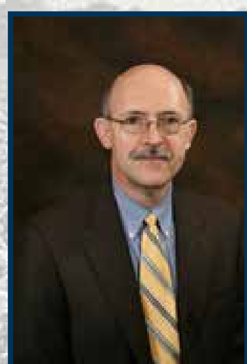
Jerry Burkett
Southern Region
Chairman

Clay Schaefer
Central Region
Vice Chairman

Russell Bonner
Central Region

Dow Brantley
Central Region

Jesse Briggs
Southern Region



Chuck Culver
Outside Director

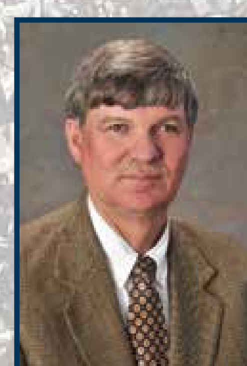
Mark Isbell
Central Region

Sandra Morgan
Outside Director

Derek Haigwood
Northern Region

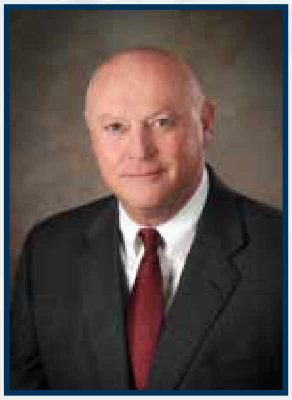
Jeff Rutledge
Northern Region

Rhonda Stone
Northern Region



Scott Young
Southern Region

SENIOR LEADERSHIP



Greg Cole
President & Chief Executive Officer

Blake Swindle
Senior Vice President & Chief Operating Officer

Drue Ford
Senior Vice President & Chief Credit Officer

Ken Sumner
Senior Vice President & Chief Financial Officer

Leslie Brown
Vice President & Chief Human Capital Officer

$8.5 MILLION

BACK IN YOUR HANDS THIS YEAR.

CUSTOMER OWNED. CUSTOMER FOCUSED.

Our Customers Share in Our Profits

At AgHeritage, we're a cooperative — owned by the very customers we serve.

This means our customer-owners enjoy sharing in our profits, which makes us different from other lenders in Arkansas.

Since 2006, AgHeritage customer-owners have received $66.45 million in profit-sharing.

AgHeritage
Farm Credit Services

Batesville 800-572-8165 | **Brinkley** 800-689-1304 | **Lonoke** 800-689-1309
McGehee 800-689-6978 | **Newport** 800-698-5867 | **Pine Bluff** 833-313-6877
Pocahontas 800-689-6976 | **Searcy** 800-689-6977 | **Stuttgart** 800-689-1307

Follow us on social media @AgHeritageFCS | agheritagefcs.com

Herrera Farming Company: An American Dream

Rodrigo Herrera came to the United States at the age of 17 to find his future near the Jefferson County town of Altheimer, Arkansas. He grew up on a family farm in Mexico. "My mother's family farmed, mainly corn. My sister and brother-in-law lived here in Altheimer. They were working on a farm, so I came and worked on the farm, too," says Herrera.

"In 1993 I worked a few months, then when the season was over I worked in logging. In 1994, I returned to agriculture, working for F.G. Smart. In 1995, I started farming 100 acres on the side while still working for him. He introduced me to Kyle Stovesand, and that's how I got started. My first loan was for that 100 acres."

Herrera worked his acreage on the side until 2000, when he started farming full-time for himself. "Then I went up to 200, then I went up to 400," he said. "Going up a little bit every two years. Now we are farming about 5,500 acres." All the farmland is within a 10-mile radius. "We try to split between three crops – we grow soybeans, corn and rice. This year it's about 1,800 acres apiece."

Said Herrera, "Planting time is my favorite, it's springtime and getting light out, and everything is coming alive. Harvest is good, but at the same time it's sad, because the year is over."

Herrera and his wife, Guadalupe, live in west Little Rock. The commute to Althimer takes about an hour most days. "We live in Little Rock because I just like it," says Herrera. "I'm up around 5 in the morning, so I leave by 5:45 or 6. It's not a bad drive. But you never know what time the end of the day is going to be! Lately it's been 10, 11 o'clock at night."

Herrera has 12 full-time employees, sometimes adding extra help through planting and harvest as needed. His brother and brother-in-law both work with him, and in the summer his nephew helps as well. "The process is: we just start," said Herrera. "By the end of the day, everyone knows what to do the next day. I say we have to do this and this, and they just get started without me. Most of the time I'm out in the field with them."

Herrera has less office work to do since office manager Lisa Anderson came on board in 2014. "I keep up with the loads of freight to the bins, I do payroll, the insurance, the billing, I keep up with USDA, all that paperwork. It's an all-day job everyday. I keep up with Kevin," she laughs.

AgHeritage Stuttgart Ag Lending Officer Kevin Wingfield agrees. "A lot of the other farmers need a Lisa! She's good as far as getting everything I need, in terms of paperwork and such. Lisa is on top of everything. They make it easy for us to work with them."

"We try to take off two or three weeks at Christmas," said Herrera, "and that's about all we can do. We run freight starting in November up to February or March. We don't have to wait for space in the bins, we don't have to start and stop the harvest."

Herrera added the grain bins in 2015. "I was leasing bins before. Since 2010, it's been part of the operation." The bins help with being able to market. "They give you the option to wait for a better price. At harvest we've got everything in the grain bins. And once everything is dry we start shipping out."

Herrera added Durango Trucking Company to his operation in 2018. The company's namesake is Durango, a five-year-old black labrador retriever who is his owner's shadow. "We started with three trucks when we leased and have worked our way up to owning seven. I have three truck drivers who stay on it, and I drive some, too."

When asked who made the biggest influence on his life, Herrera names his father, who passed away three years ago, "He taught me perspective, and he always told me you can be whatever you decide to be. I learned my work ethic from my dad. I do believe in God, too. Without Him we wouldn't be here."

Ignacio Herrera, was a truck driver in Mexico. "I got the trucking from Dad and the farming from Mom!" Herrera laughs. Herrera made the 1,600- mile trip to see his family every three or four months, and his father would come visit in Arkansas. "I used to miss Mexico, but not any more," said Herrera. "I like it here. I've been blessed."

He hopes that Herrera Farms will stay in his family. "I hope my nephew would like to take it," he said. "It takes a lot to build something, and I'm not going to be here forever."

"I don't think farming will ever end," said Herrera. "We need farmers and we will need to farm forever. I think the technology will be updated and be a big part of the future. I think we're moving towards fewer farmers, but bigger. It's been going this way for a while."

Office manager Anderson says of Herrera, "He's a teacher. Every year, when we have new guys come in, he teaches them everything. He wouldn't be where he's at today if he wasn't a good leader. We have the same guys wanting to come back and work every year.He has knowledge of the farming industry, and the guys really listen to and respect him."

Replied Herrera, "You've got to know what you're doing. You can say, 'There's business to be done this way' and show them. You should never ask someone to do anything that you're not willing to do yourself."

Of his relationship with AgHeritage, Herrera speaks fondly. "I've always been happy with Kyle, and Kevin, and it's nice to work with them," he said. "If I have any questions I'll just call them. If they have information for me, they make the time to come out. It makes it so easy for us."

"I feel farming is close to God," says Herrera. "Since I grew up farming, it's all I know, and I love it. If I had to quit farming I'd probably just die."

Diversification Proves Key for Cater Farms

The Cater family is nothing if not busy. They farm cattle, poultry, row crops and bamboo on about 2,000 non-contiguous acres northeast of Monticello in Drew County and provide contract labor to tree nurseries to pack trees being shipped out and planted. Dr. Jason Cater is a veterinarian who inspects and certifies eggs and pullets for several poultry companies, and owns a small-animal vet clinic in Camden, which is run by a veterinary school classmate of his. He is also the pastor at Old Union Baptist Church. Son Weston, 19, is an Ag Business major at the University of Arkansas at Monticello and son Tanner, 17, is a senior completing his homeschool studies while taking concurrent classes in Animal Science at UAM, and plans to attend vet school at Mississippi State University. Sara handles the books and communication between vendors, clients and among the employees, arguably the most important part of any farm operation.

"I grew up raising cattle," Dr. Cater said. "I always knew this is something I wanted to do."

Caters have been farming in the area since the Civil War. Dr. Cater's grandfather farmed cattle, corn and cotton, and his parents, Donnie and Sue Cater, farm cattle. Sara was raised in the country, but not on a farm. "I grew up as a pastor's daughter, and a pastor's granddaughter, and a pastor's niece, and a pastor's sister," said Sara. "So farming was new to me."

But even as the fifth generation to farm, they did not inherit land, but instead acquired what they have over time through hard work. The only land they didn't buy was a wedding gift. "When we were married, my father gave us 10 acres of land, and we immediately put two poultry houses on it," Dr. Cater said.

The two met at UAM. "My friend said, 'His mom has a photo of your daddy in their house,' and I said 'what?'" said Sara. "So that weekend I asked my mom, 'Do you know any Caters from Monticello?' My mom immediately said, 'Donnie and Sue!' My parents had known them for years through church activities, even though we lived in Hamburg. I said, 'Calm down! I'm meeting their son on Monday but probably nothing is going to happen.' This was in 1999. We met on October 4. We got engaged December 4, and we were married on March 11, 2000."

The Caters soon realized that diversification would be the key to their success. "When we began chicken farming in 2000, we had great expectations of chicken farming full-time. Little did we know about much!" exclaimed Sara. "It did not take long to realize that one cannot easily make a living with two layer hen houses and a few head of beef cattle. However, it was during this tight time that we got creative and stepped out on faith. We began a small service business that hand-plants tree seedlings for reforestation projects. The Lord blessed our work and faith, and allowed that business to grow in time, establishing our name as reliable business owners. This first step of diversification in business started us on a path that has led to having multiple businesses and farms."

After the chicken houses were up and running and Dr. Cater finished vet school, he and Sara had the opportunity to buy some land. "We bought some very close to our 10 acres and my family's land," said Dr. Cater. "We managed to cobble together about 600 acres. A lot of it was timber that we converted to pasture."

About 300 acres was going to be difficult to irrigate consistently. "We got into the quail program through Quail Forever," said Dr. Cater. "We committed to planting 300 acres of native grass and wildflowers for five years as quail habitat. At the end of the five years we'll probably fence the area and graze it. There's a lot of interest in native-grass pastures for grazing, and we will already have it established."

The Caters are also the first commercial farmers of bamboo in Arkansas. "I'd been reading about bamboo and how quickly it grows, and the amount you can harvest per acre," said Dr. Cater. "They're using it now for so many things – clothing, bedsheets, paper, flooring and furniture. You plant it one time and never have to re-plant. It's a sustainable crop and can generate a lot of return. I hope we'll benefit from that financially."




"About three years ago we began to shop around to see what our financing options were," said Dr. Cater. "I've known Bill Stephens for a long time, so I called him and said, 'Here's what we're looking at, what can you do for us?' Bill was the first person I called. We reached out to other banking institutions as well, and had some really good opportunities presented to us, but the biggest advantage in going with AgHeritage is that they could give us long-term fixed-rate loans. You can manage your cash flow that way."

"AgHeritage understands that farmers' expenses and income are always variable," said Sara. "The income may only come in once or twice a year, at harvest or calf sale. AgHeritage realizes that for most farm-related loans, annual payments are the only farmer-friendly payment options. We're thankful AgHeritage has always been willing to help us and support our goals."

"Who knows what we're going to start tomorrow?" said Sara. "It could be any number of things, but Bill is going to be our go-to guy."

The Caters were named the Drew County Farm Family of the year in 2013, and Weston and Tanner will be the 6th generation to farm.

"Raising a family, we wanted to make sure our boys grew up on a farm, understanding the value of work and the responsibility it takes to do that, growing and learning how to manage a business and take care of themselves and a family," said Dr. Cater. "We wanted to make sure our kids grew up in that environment."

"The boys help a lot," said Sara. "As they've grown up they've learned all the different aspects of the operation. If we could give advice to new farmers, it would be to think outside the box and be willing to try new things. Not only can those new endeavors bring much needed income, they can bring connections and people into your life that you never knew you needed. It has not always been easy, but it has been fun. The Lord brought us together and has kept us together."

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AgHeritage Farm Credit Services, ACA

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear AgHeritage Farm Credit Services Customer-Owners,

We are pleased to report AgHeritage Farm Credit Services, ACA (AgHeritage FCS) experienced robust business performance and generated strong financial ratios in terms of capital, efficiency ratio, asset growth, credit quality and earnings. The Association also continues to achieve excellent customer satisfaction survey results. Your cooperative has grown to $2.2 billion in assets and enjoys a strong market share position confirming we are achieving our vision of being the agricultural lender of choice in our local marketplace.

The Association paid $8.5 million in patronage based on 2022 earnings to eligible customer-owners in February 2023. The Board of Directors remains committed to our customer-owners in sharing the success of your cooperative. The $8.5 million payout represents approximately 20 percent of net earnings which allows retention of a portion of earnings to provide for future growth and capital stability. Your cooperative has distributed a portion of its annual earnings to its customer-owners for seventeen consecutive years. AgHeritage has distributed $66.45 million to customer-owners and plans to continue patronage distributions well into the future.

We maintained strong credit quality through the fourth quarter of 2022. The 2022 crop conditions in our area were impacted by hot and dry weather, which had a negative impact on yields for most crops. Commodity prices have trended higher, but those high prices were negatively impacted by higher input costs and interest rates. Given these conditions, we expect many row crop customers to be challenged to realize positive cash flows. With strong balance sheets going into the 2022 crop, we do not expect a significant decline in credit quality. Land values in our area are stable to higher.

In 2022, we made a significant investment in human capital by adding more staff. This allows us to continue to grow our business model, enhance customer service and improve risk management and succession. Investments were also made in technology to help us meet customer expectations and improve efficiencies.

The Annual Report provides detailed documentation supporting the financial results of the Association. We encourage you to review it carefully, and if you have questions, contact our corporate office or any branch location.

AgHeritage FCS is proud to be your lending cooperative providing both customer and stockholder value to our customer-owners. We want to thank you for allowing us to serve your credit and financial services needs today and tomorrow. We also want to thank our staff for their dedication and hard work. Serving agriculture and rural America is not just our mission; it's our passion.

Sincerely,

Gregory W. Cole
President and Chief Executive Officer
AgHeritage Farm Credit Services, ACA

March 9, 2023

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

AgHeritage Farm Credit Services, ACA

(dollars in thousands)

As of December 31	2022	2021	2020	2019	2018
Condensed Statement of Condition Data					
Loans	**$ 2,103,328**	$ 1,927,312	$ 1,739,013	$ 1,459,978	$ 1,314,268
Allowance for loan losses	**11,295**	9,823	10,919	7,693	4,458
Net loans	**2,092,033**	1,917,489	1,728,094	1,452,285	1,309,810
Investment in AgriBank, FCB	**58,535**	46,626	38,276	32,968	27,449
Investment securities	**65**	315	590	982	1,663
Other assets	**48,823**	40,484	38,416	39,080	35,402
Total assets	**$ 2,199,456**	$ 2,004,914	$ 1,805,376	$ 1,525,315	$ 1,374,324
Obligations with maturities of one year or less	**$ 31,943**	$ 21,229	$ 18,138	$ 19,403	$ 15,979
Obligations with maturities greater than one year	**1,745,144**	1,595,805	1,433,565	1,181,941	1,058,397
Total liabilities	**1,777,087**	1,617,034	1,451,703	1,201,344	1,074,376
Protected members' equity	**--**	--	--	1	1
Capital stock and participation certificates	**3,514**	3,324	3,093	2,943	2,839
Unallocated surplus	**419,681**	385,814	351,796	321,852	297,588
Accumulated other comprehensive loss	**(826)**	(1,258)	(1,216)	(825)	(480)
Total members' equity	**422,369**	387,880	353,673	323,971	299,948
Total liabilities and members' equity	**$ 2,199,456**	$ 2,004,914	$ 1,805,376	$ 1,525,315	$ 1,374,324

For the year ended December 31	2022	2021	2020	2019	2018
Condensed Statement of Income Data					
Net interest income	**$ 55,461**	$ 49,256	$ 45,175	$ 40,294	$ 36,952
Provision for credit losses	**1,593**	(70)	4,031	3,248	69
Other expenses, net	**11,624**	8,344	5,241	7,766	9,585
Net income	**$ 42,244**	$ 40,982	$ 35,903	$ 29,280	$ 27,298
Key Financial Ratios					
For the Year					
Return on average assets	**2.0%**	2.1%	2.1%	2.0%	2.1%
Return on average members' equity	**10.4%**	11.1%	10.6%	9.4%	9.5%
Net interest income as a percentage of average earning assets	**2.7%**	2.6%	2.8%	2.8%	2.9%
Net (recoveries) charge-offs as a percentage of average loans	**(0.0%)**	0.1%	0.0%	0.0%	0.0%
At Year End					
Members' equity as a percentage of total assets	**19.2%**	19.3%	19.6%	21.2%	21.8%
Allowance for loan losses as a percentage of loans	**0.5%**	0.5%	0.6%	0.5%	0.3%
Common equity tier 1 ratio	**15.5%**	16.2%	16.8%	18.0%	18.5%
Tier 1 capital ratio	**15.5%**	16.2%	16.8%	18.0%	18.5%
Total capital ratio	**16.0%**	16.7%	17.3%	18.4%	18.8%
Permanent capital ratio	**15.6%**	16.3%	16.9%	18.1%	18.6%
Tier 1 leverage ratio	**16.8%**	17.5%	18.1%	19.5%	19.7%
Net Income Distributed					
For the Year					
Patronage distributions:					
Cash	**$ 6,928**	$ 5,964	$ 4,959	$ 3,911	$ 3,717

MANAGEMENT'S DISCUSSION AND ANALYSIS

AgHeritage Farm Credit Services, ACA

The following commentary reviews the consolidated financial condition and consolidated results of operations of AgHeritage Farm Credit Services, ACA (the Association) and its subsidiaries, AgHeritage Farm Credit Services, FLCA and AgHeritage Farm Credit Services, PCA and provides additional specific information. The accompanying Consolidated Financial Statements and Notes to the Consolidated Financial Statements also contain important information about our financial condition and results of operations.

The Farm Credit System (System) is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations, established by Congress to meet the credit needs of American agriculture. As of January 1, 2023, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 61 borrower-owned cooperative lending institutions (associations). The System serves all 50 states, Washington D.C., and Puerto Rico. This network of financial cooperatives is owned and governed by the rural customers the System serves.

AgriBank, FCB (AgriBank), a System Farm Credit Bank, and its District associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). We are an association in the District.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System. The Farm Credit System Insurance Corporation (FCSIC) administers the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used to ensure the timely payment of principal and interest on Systemwide debt obligations, to ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes.

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank financial reports, contact us at:

AgHeritage Farm Credit Services, ACA
119 East Third Street, Suite 200
Little Rock, AR 72201
(800) 299-2290
www.agheritagefcs.com

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.AgriBank.com
FinancialReporting@AgriBank.com

Our Annual Report is available on our website no later than 75 days after the end of the calendar year and members are provided a copy of such report no later than 90 days after the end of the calendar year. The Quarterly Reports are available on our website no later than 40 days after the end of each calendar quarter. To request free copies of our Annual or Quarterly Reports, contact us as stated above.

FORWARD-LOOKING INFORMATION

This Annual Report includes forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. Words such as "anticipate", "believe", "estimate", "may", "expect", "intend", "outlook", and similar expressions are used to identify such forward-looking statements. These statements reflect our current views with respect to future events. However, actual results may differ materially from our expectations due to a number of risks and uncertainties which may be beyond our control. The information in this report is based on current knowledge and is subject to many risks and uncertainties including, but not limited to:

- Political (including trade policies, environmental policies, and civil unrest), legal, regulatory, financial markets, and economic conditions, or other conditions and developments in the United States (U.S.) and abroad
- Length and severity of an epidemic or pandemic
- Economic fluctuations in the agricultural, international, rural, and farm-related business sectors
- Weather-related, disease, and other adverse climatic or biological conditions that periodically occur and can impact agricultural productivity and income
- Changes in U.S. government support of the agricultural industry (including government support payments) and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government, other government-sponsored enterprises, and other financial institutions
- Actions taken by the Federal Reserve System in implementing monetary policy
- Cybersecurity risks, including a failure or breach of our operational or security systems or infrastructure, or those of our third-party vendors or other service providers
- Credit, interest rate, and liquidity risks inherent in our lending activities
- Disruptive technologies impacting the banking and financial services industries or implemented by our competitors which negatively impact our ability to compete in the marketplace
- Changes in our assumptions for determining the allowance for credit losses and fair value measurements
- Industry outlooks for agricultural conditions
- Changes in interest rate indices utilized in our lending

AGRICULTURAL AND ECONOMIC CONDITIONS

We maintained strong credit quality through the fourth quarter of 2022. The 2022 crop conditions in our area were impacted by hot and dry weather, which had a negative impact on yield for most crops. Commodity prices have trended higher, but those high prices were negatively impacted by higher input costs and interest rates. Given these conditions, we expect many row crop customers to be challenged to realize positive cash flows. With strong balance sheets going into the 2022 crop, we do not expect a significant decline in credit quality. Land values in our area are stable to higher.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $2.1 billion at December 31, 2022, an increase of $176.0 million from December 31, 2021.

Components of Loans

(in thousands)

As of December 31	**2022**	2021	2020
Accrual loans:			
Real estate mortgage	**$ 1,150,340**	$ 1,093,732	$ 928,016
Production and intermediate-term	**510,391**	477,644	439,348
Agribusiness	**350,626**	286,442	295,371
Other	**86,566**	65,782	65,855
Nonaccrual loans	**5,405**	3,712	10,423
Total loans	**$ 2,103,328**	$ 1,927,312	$ 1,739,013

The other category is primarily composed of rural infrastructure and rural residential real estate loans.

The increase in total loans from December 31, 2021, was primarily due to growth in the agribusiness, real estate mortgage, and production and intermediate-term loan portfolios.

We have sold to AgriBank participation interests in certain loans as part of a pool program. The total outstanding participation interests in this program were $10.3 million, $11.8 million, and $13.9 million at December 31, 2022, 2021, and 2020, respectively.

Typically, our production and intermediate-term loan portfolio exhibits some seasonality relating to patterns of operating loans made to crop producers. These loans are normally at their lowest levels following the harvest and then increase in the spring and throughout the rest of the year as borrowers fund operating needs.

We offer variable, fixed, capped, indexed, and adjustable interest rate loan programs to our borrowers. We determine interest margins charged on each lending program based on cost of funds, credit risk, market conditions, and the need to generate sufficient earnings.

Throughout this Annual Report, there may be references to loan volume which is defined as loan principal plus accrued interest receivable.

Portfolio Distribution

We are chartered to serve certain counties in Arkansas. Approximately 31.5% of our total loan portfolio was in Lonoke, Lawrence, Arkansas, Pulaski, and Randolph counties at December 31, 2022.

Agricultural Concentrations

As of December 31	**2022**	2021	2020
Rice	**36.3%**	37.2%	36.5%
Poultry and eggs	**10.5%**	10.0%	9.7%
Processing and marketing	**10.2%**	9.1%	10.1%
Other livestock	**9.8%**	9.8%	9.5%
Soybeans	**6.8%**	6.9%	7.4%
Other row crops	**5.0%**	5.2%	5.2%
Timber	**3.2%**	3.4%	3.2%
Cotton	**2.6%**	2.3%	2.7%
Farm equipment, machinery, and supply	**2.5%**	1.7%	1.8%
Corn	**2.3%**	2.5%	2.2%
Other	**10.8%**	11.9%	11.7%
Total	**100.0%**	100.0%	100.0%

Commodities are based on the borrower’s primary intended commodity at the time of loan origination and may change due to borrower business decisions as a result of changes in weather, prices, input costs, and other circumstances.

Portfolio Credit Quality

The credit quality of our portfolio improved slightly from December 31, 2021. Adversely classified loans decreased to 0.7% of the portfolio at December 31, 2022, from 1.7% of the portfolio at December 31, 2021. Adversely classified loans are loans we have identified as showing some credit weakness according to our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses. Additional credit quality information is included in Note 3 to the accompanying Consolidated Financial Statements.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At December 31, 2022, $27.9 million of our loans were substantially guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands)

As of December 31		**2022**		2021		2020
Loans:						
Nonaccrual	**$**	**5,405**	$	3,712	$	10,423
Accruing restructured		**--**		--		--
Accruing loans 90 days or more past due		**--**		--		--
Total risk loans		**5,405**		3,712		10,423
Other property owned		**--**		--		--
Total risk assets	**$**	**5,405**	$	3,712	$	10,423
Total risk loans as a percentage of total loans		**0.3%**		0.2%		0.6%
Nonaccrual loans as a percentage of total loans		**0.3%**		0.2%		0.6%
Current nonaccrual loans as a percentage of total nonaccrual loans		**94.1%**		59.0%		21.9%
Total delinquencies as a percentage of total loans		**0.1%**		0.3%		0.6%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2021, but have remained at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans were well within our established risk management guidelines.

The increase in nonaccrual loans was primarily due to one relationship with multiple agribusiness loans moving to nonaccrual during the year ended December 31, 2022. This increase was partially offset by several real estate mortgage loans that either returned to accruing status or were paid during the year ended December 31, 2022, and were in nonaccrual status as of December 31, 2021. Nonaccrual loans remained at an acceptable level at December 31, 2022, 2021, and 2020.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans inherent in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on the periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Allowance Coverage Ratios

As of December 31	**2022**	2021	2020
Allowance as a percentage of:			
Loans	**0.5%**	0.5%	0.6%
Nonaccrual loans	**209.0%**	264.6%	104.8%
Total risk loans	**209.0%**	264.6%	104.8%
Net (recoveries) charge-offs as a percentage of average loans	**(0.0%)**	0.1%	0.0%
Adverse assets to capital and allowance for loan losses	**3.6%**	8.3%	10.7%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2022. The decrease in the allowance as a percentage of nonaccrual and total risk loans was primarily due to the increase in nonaccrual loans discussed above. The decrease in adverse assets to capital and allowance for loan losses was primarily due to improving credit quality and paydowns on adversely classified loans.

Effective January 1, 2023, we adopted Accounting Standards Update (ASU) 2016-13 “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”(CECL). This guidance established a single allowance framework for all financial assets measured at amortized cost and certain off-balance sheet credit exposures, and replaced the incurred loss guidance. This framework requires that management’s estimate reflects credit losses over the asset’s remaining expected life and considers expected future changes in macroeconomic conditions. The allowance for credit losses comprises the allowance for credit losses on loans, the allowance for unfunded commitments, and the allowance for credit losses on investment securities.

After adoption of this guidance, the allowance for credit losses takes into consideration relevant information about past events, current conditions, and macroeconomic forecasts of future conditions. An economic scenario is considered over a reasonable and supportable forecast period, after which, the framework incorporates historical loss experience. Final loss estimates also consider factors affecting credit losses not reflected in the scenario, due to the unique aspects of current conditions and expectations. These factors may include, but are not limited to, lending policies, portfolio concentrations, regulatory guidance, and/or lags in economic forecast information.

As a result of adoption of this guidance, the allowance for loan losses decreased by $6.8 million and the reserve for unfunded commitments increased by approximately $140 thousand. The decrease in the allowance for loan losses is largely due to the requirement of the standard to estimate losses to the assets’ contractual maturities, resulting in a decrease of allowances attributable to our short-term portfolios and our long-term real estate portfolios.

Additional information related to the adoption of this new guidance is included in Note 2 to the accompanying Consolidated Financial Statements.

Additional loan information is included in Notes 3, 9, 10, and 11 to the accompanying Consolidated Financial Statements.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the year ended December 31	**2022**	2021	2020
Net income	**$ 42,244**	$ 40,982	$ 35,903
Return on average assets	**2.0%**	2.1%	2.1%
Return on average members' equity	**10.4%**	11.1%	10.6%

Changes presented in the profitability information chart relate directly to:

- Changes in income discussed in this section
- Changes in assets discussed in the Loan Portfolio
- Changes in capital discussed in the Capital Adequacy section

Changes in Significant Components of Net Income

	For the year ended December 31			Increase (decrease) in net income	
(in thousands)	**2022**	2021	2020	**2022 vs 2021**	2021 vs 2020
Net interest income	**$ 55,461**	$ 49,256	$ 45,175	**$ 6,205**	$ 4,081
Provision for credit losses	**1,593**	(70)	4,031	**(1,663)**	4,101
Non-interest income	**13,014**	13,837	13,397	**(823)**	440
Non-interest expense	**23,822**	21,027	17,893	**(2,795)**	(3,134)
Provision for income taxes	**816**	1,154	745	**338**	(409)
Net income	**$ 42,244**	$ 40,982	$ 35,903	**$ 1,262**	$ 5,079

Net Interest Income

Changes in Net Interest Income

(in thousands)

For the year ended December 31	**2022 vs 2021**	2021 vs 2020
Changes in volume	**$ 5,421**	$ 6,564
Changes in interest rates	**1,219**	(2,477)
Changes in nonaccrual income and other	**(435)**	(6)
Net change	**$ 6,205**	$ 4,081

Net interest income included income on nonaccrual loans that totaled $504 thousand, $938 thousand, and $944 thousand in 2022, 2021, and 2020, respectively. Nonaccrual interest income is recognized when received in cash, collection of the recorded investment is fully expected, and prior charge-offs have been recovered.

Net interest margin (net interest income as a percentage of average earning assets) was 2.7%, 2.6%, and 2.8% in 2022, 2021, and 2020, respectively. Our net interest margin is sensitive to interest rate changes and competition.

Provision for Credit Losses

The change in the provision for credit losses was related to our estimate of losses in our portfolio for the applicable years. Additional information is included in Note 3 to the accompanying Consolidated Financial Statements.

Non-Interest Expense

Components of Non-interest Expense

(dollars in thousands) For the year ended December 31		**2022**		2021		2020
Salaries and employee benefits	**$**	**11,673**	$	10,635	$	10,038
Other operating expense:						
Purchased and vendor services		**2,773**		2,897		2,326
Communications		**366**		339		276
Occupancy and equipment		**1,413**		1,156		1,092
Advertising and promotion		**682**		567		529
Examination		**609**		559		509
Farm Credit System insurance		**3,422**		2,481		1,310
Other		**2,844**		2,302		1,736
Other non-interest expense		**40**		91		77
Total non-interest expense	**$**	**23,822**	$	21,027	$	17,893
Operating rate		**1.1%**		1.1%		1.1%

The change in non-interest expense was primarily due to an increase in salaries and employee benefits, the higher Farm Credit System Insurance Corporation (FCSIC) premium rate, and an increase in other operating expenses.

Salaries and employee benefits expense increased primarily due to higher employee counts and their incurred salaries and benefits costs.

The Farm Credit System insurance expense increased in 2022 primarily due to an increase in the Insurance Fund premium rate on Systemwide adjusted insured debt. The premium rate, which is primarily impacted by System growth, was 20 basis points for 2022, compared to 16 basis points for 2021. The FCSIC has announced premiums will be 18 basis points for 2023. The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time. See Note 1 for additional information on the Insurance Fund.

The increase in other operating expenses was due to an increase in compensation for our Board of Directors, an increase in travel related expenses, and an increase in loan servicing costs specifically related to lien searches and capital market fees.

Provision for Income Taxes

The change in provision for income taxes was primarily related to our estimate of taxes based on taxable income. Patronage distributions to members reduced our tax liability in 2022, 2021, and 2020. Additional disclosure is included in Note 7 to the accompanying Consolidated Financial Statements.

FUNDING AND LIQUIDITY

We borrow from AgriBank, under a note payable, in the form of a line of credit, as described in Note 5 to the accompanying Consolidated Financial Statements. This line of credit is our primary source of liquidity and is used to fund operations and meet current obligations. At December 31, 2022, we had $538.9 million available under our line of credit. We generally apply excess cash to this line of credit. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

Note Payable Information

(dollars in thousands) For the year ended December 31		**2022**		2021		2020
Average balance	**$**	**1,722,870**	$	1,540,489	$	1,321,747
Average interest rate		**2.1%**		1.4%		1.9%

Our average cost of funds is variable and may fluctuate based on the current interest rate environment.

ICE Benchmark Administration (the entity responsible for calculating the London Inter-bank Offer Rate (LIBOR)) ceased the publication of the one-week and two-month USD LIBOR settings immediately following the LIBOR publication on December 31, 2021, and has announced it intends to cease publication of the remaining USD LIBOR settings immediately following the LIBOR publication on June 30, 2023. It is widely anticipated that the Secured Overnight Financing Rate (SOFR) published by the CME group will generally be the fallback to LIBOR.

The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. However, we maintain some exposure to interest rates, including LIBOR, primarily from loans to customers which may not have a component of our line of credit with an exact repricing attribute. With limited exceptions in accordance with FCA guidance, we have ceased issuing new loans indexed to LIBOR and all remaining loans indexed to LIBOR have appropriate fallback language.

The Farm Credit System has established a LIBOR transition workgroup to provide leadership in addressing the LIBOR phase-out across System entities. In coordination with this group, we have developed a comprehensive project plan to address the issues surrounding a transition away from LIBOR. This plan is consistent with regulatory guidance from the FCA, and it incorporates actions to address risk identification and reporting, mitigation strategies, development or adoption of products utilizing alternative reference rates, operational and system impacts, a process for monitoring regulatory and industry developments, as well as communication to stakeholders. While many factors can impact our net interest income, we do not expect a significant impact due to the LIBOR transition at this time.

CAPITAL ADEQUACY

Total members' equity was $422.4 million, $387.9 million, and $353.7 million at December 31, 2022, 2021, and 2020, respectively. Total members' equity increased $34.5 million from December 31, 2021, primarily due to net income for the year partially offset by patronage distribution accruals. Effective January 1, 2023, we adopted the CECL accounting guidance. The adoption of this guidance resulted in a cumulative effect adjustment to equity at January 1, 2023. Refer to Note 2 for additional information regarding the CECL adoption and cumulative effect adjustment to equity.

The FCA Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Effective January 1, 2022, the FCA Regulations slightly modified the calculation of the unallocated retained earnings and equivalents leverage ratio to include certain additional deductions. The modification did not have a material impact on this ratio.

Regulatory Capital Requirements and Ratios

As of December 31	**2022**	2021	2020	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:						
Common equity tier 1 ratio	**15.5%**	16.2%	16.8%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**15.5%**	16.2%	16.8%	6.0%	2.5%	8.5%
Total capital ratio	**16.0%**	16.7%	17.3%	8.0%	2.5%	10.5%
Permanent capital ratio	**15.6%**	16.3%	16.9%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	**16.8%**	17.5%	18.1%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**16.7%**	18.6%	19.0%	1.5%	N/A	1.5%

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet member needs and protect member interests, both now and in the future.

Capital ratios are directly impacted by changes in capital, assets, and off-balance sheet commitments. Refer to the Loan Portfolio section for further discussion of the changes in assets. Additional information on regulatory ratios and members' equity information is included in Note 6 to the accompanying Consolidated Financial Statements and information on off-balance sheet commitments is included in Note 10 to the accompanying Consolidated Financial Statements.

In addition to these regulatory requirements, we establish an optimum total capital target range. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target range is subject to revision as circumstances change. Our optimum total capital target range is 14% to 20%, as defined in our 2023 capital plan.

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. We do not foresee any events that would result in this prohibition in 2023.

RELATIONSHIP WITH AGRIBANK

Borrowing

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement (GFA), as described in Note 5 to the accompanying Consolidated Financial Statements, governs this lending relationship.

The components of cost of funds under the GFA include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

In the periods presented, we were not subject to the risk premium component. Certain factors may impact our cost of funds, which primarily include market interest rate changes impacting marginal cost of debt as well as changes to pricing methodologies impacting the spread components described above.

The marginal cost of debt approach simulates matching the cost of underlying debt with similar terms as the anticipated terms of our loans to borrowers. This approach substantially protects us from market interest rate risk. We may occasionally engage in funding strategies that result in limited interest rate risk with approval by AgriBank's Asset/Liability Committee.

Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing distributed AgriBank surplus. As of December 31, 2022, we were required by AgriBank to maintain an investment equal to 2.55% of the average quarterly balance of our note payable. The required investment increased to 3.0% for 2023.

We are also required to hold additional investment in AgriBank based on a contractual agreement under a pool program.

Patronage

AgriBank's capital plan is intended to provide for adequate capital at AgriBank under capital regulations as well as to create a path to long-term capital optimization within the AgriBank District. The plan optimizes capital at AgriBank; distributing available AgriBank earnings in the form of patronage, either cash or AgriBank stock, which is at the sole discretion of the AgriBank Board of Directors. The plan is designed to maintain capital adequacy such that sufficient earnings will be retained in the form of unallocated retained earnings and allocated stock to meet the leverage ratio target and other regulatory or policy constraints prior to any cash patronage distributions.

Purchased Services

As of December 31, 2022, we purchased certain business services from AgriBank. Until the formation of SunStream Business Services (SunStream) on April 1, 2020, we also purchased financial and retail information technology, collateral, and tax reporting services from AgriBank. These services are now purchased from SunStream. For further discussion on our relationship with SunStream see the Other Relationships and Programs section. Additional related party information is included in Note 9 to the accompanying Consolidated Financial Statements.

Impact on Members' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment.

OTHER RELATIONSHIPS AND PROGRAMS

Relationships with Other Farm Credit Institutions

AgCountry Farm Credit Services, ACA: We have a relationship with AgCountry Capital Markets, which involves purchasing participation interests in loans to large eligible borrowers. AgCountry Farm Credit Services, ACA is the lead lender and facilitating agent of these participations. Each participating association makes an independent credit decision to purchase these loans based on the Association's capacity and preferences.

CentRic Technology Collaboration: We participate in CentRic Technology Collaboration (CTC) with certain other AgriBank District associations. The CTC facilitates the development and maintenance of certain retail technology systems essential to providing credit and other services to our members. The CTC operations are governed by representatives of each participating association. The expenses of CTC are allocated to each of the participating associations based on an agreed upon formula. The systems developed are owned by each of the participating associations.

Farm Credit Leasing Services Corporation: We have an agreement with Farm Credit Leasing Services Corporation (FCL), a System service corporation, which specializes in leasing products and provides industry expertise. Leases are originated and serviced by FCL and we purchase a participation interest in the cash flows of the transaction. This arrangement provides our members with a broad selection of product offerings and enhanced lease expertise.

CoBank, ACB: We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing and selling participation interests in loans. As part of this relationship, our equity investment in CoBank was $370 thousand at December 31, 2022, 2021, and 2020.

SunStream Business Services: We have a relationship with SunStream, which involves purchasing financial and retail information technology, collateral, and tax reporting services. SunStream was a division of AgriBank prior to April 1, 2020, when SunStream formed a separate System service corporation of which we are a partial owner. As of December 31, 2022, 2021, and 2020, our investment in SunStream was $400 thousand, $329 thousand, and $329 thousand, respectively. Additional related party information is included in Note 9 to the accompanying Consolidated Financial Statements. We also guarantee the amounts borrowed by SunStream on their line of credit with AgriBank, up to $40.0 million. Refer to Note 10 to the accompanying Consolidated Financial Statements for further disclosure.

Farm Credit Foundations: We have a relationship with Farm Credit Foundations (Foundations), a System service corporation, which involves purchasing human resource, benefit, payroll, and workforce management services. As of December 31, 2022, 2021, and 2020, our investment in Foundations was $13 thousand. Additional related party information is included in Note 9 to the accompanying Consolidated Financial Statements.

Programs

Farm Cash Management: We offer Farm Cash Management to our members. Farm Cash Management links members' revolving lines of credit with an AgriBank investment bond to optimize members' use of funds.

REPORT OF MANAGEMENT

AgHeritage Farm Credit Services, ACA

We prepare the Consolidated Financial Statements of AgHeritage Farm Credit Services, ACA (the Association) and are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Consolidated Financial Statements, in our opinion, fairly present the financial condition of the Association. Other financial information included in the Annual Report is consistent with that in the Consolidated Financial Statements.

To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audit the Consolidated Financial Statements. They also consider internal controls to the extent necessary to design audit procedures that comply with auditing standards generally accepted in the United States of America. The Farm Credit Administration also performs examinations for safety and soundness as well as compliance with applicable laws and regulations.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with us and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of the Association.

The undersigned certify we have reviewed the Association's Annual Report, which has been prepared in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Jerry Burkett
Chairperson of the Board
AgHeritage Farm Credit Services, ACA

Gregory W. Cole
President and Chief Executive Officer
AgHeritage Farm Credit Services, ACA

Kenneth L. Sumner
Senior Vice President and Chief Financial Officer
AgHeritage Farm Credit Services, ACA

March 9, 2023

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

AgHeritage Farm Credit Services, ACA

The AgHeritage Farm Credit Services, ACA (the Association) principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining effective internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2022. In making the assessment, management used the 2013 framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2022, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2022.

Greg Cole

Gregory W. Cole
President and Chief Executive Officer
AgHeritage Farm Credit Services, ACA

Ken Sumner

Kenneth L. Sumner
Senior Vice President and Chief Financial Officer
AgHeritage Farm Credit Services, ACA

March 9, 2023

REPORT OF AUDIT COMMITTEE

AgHeritage Farm Credit Services, ACA

The Consolidated Financial Statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of a subset of the Board of Directors of AgHeritage Farm Credit Services, ACA (the Association). The Audit Committee oversees the scope of the Association's internal audit program, the approval and independence of PricewaterhouseCoopers LLP (PwC) as independent auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's actions with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for internal controls and the preparation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the Consolidated Financial Statements in accordance with auditing standards generally accepted in the United States of America and to issue their report based on their audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Audit Committee reviewed and discussed the audited Consolidated Financial Statements for the year ended December 31, 2022, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards AU-C 260, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditor directly provided reports on any significant matters to the Audit Committee.

The Audit Committee had discussions with and received written disclosures from PwC confirming its independence. The Audit Committee also reviewed the non-audit services provided by PwC, if any, and concluded these services were not incompatible with maintaining PwC's independence. The Audit Committee discussed with management and PwC any other matters and received any assurances from them as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended the audited Consolidated Financial Statements be included in the Annual Report for the year ended December 31, 2022.

Sandra Morgan

Sandra Morgan
Chairperson of the Audit Committee
AgHeritage Farm Credit Services, ACA

Additional Audit Committee members:
Derek Haigwood
Mark Isbell
Jeff Rutledge
Rhonda Stone

March 9, 2023

Report of Independent Auditors

To the Board of Directors of AgHeritage Farm Credit Services, ACA:

Opinion

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

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Other Information

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

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

PricewaterhouseCoopers LLP

Minneapolis, Minnesota
March 9, 2023

CONSOLIDATED STATEMENTS OF CONDITION

AgHeritage Farm Credit Services, ACA

(in thousands)

As of December 31	2022	2021	2020
ASSETS			
Loans	**$ 2,103,328**	$ 1,927,312	$ 1,739,013
Allowance for loan losses	**11,295**	9,823	10,919
Net loans	**2,092,033**	1,917,489	1,728,094
Investment in AgriBank, FCB	**58,535**	46,626	38,276
Investment securities	**65**	315	590
Accrued interest receivable	**32,664**	24,138	24,015
Deferred tax assets, net	**350**	66	498
Other assets	**15,809**	16,280	13,903
Total assets	**$ 2,199,456**	$ 2,004,914	$ 1,805,376
LIABILITIES			
Note payable to AgriBank, FCB	**$ 1,745,144**	$ 1,595,805	$ 1,433,565
Accrued interest payable	**12,526**	5,726	5,314
Patronage distribution payable	**8,449**	7,000	6,000
Other liabilities	**10,968**	8,503	6,824
Total liabilities	**1,777,087**	1,617,034	1,451,703
Contingencies and commitments (Note 10)			
MEMBERS' EQUITY			
Capital stock and participation certificates	**3,514**	3,324	3,093
Unallocated surplus	**419,681**	385,814	351,796
Accumulated other comprehensive loss	**(826)**	(1,258)	(1,216)
Total members' equity	**422,369**	387,880	353,673
Total liabilities and members' equity	**$ 2,199,456**	$ 2,004,914	$ 1,805,376

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

AgHeritage Farm Credit Services, ACA

(in thousands)

For the year ended December 31	**2022**	2021	2020
Interest income	**$ 90,939**	$ 71,488	$ 70,195
Interest expense	**35,478**	22,232	25,020
Net interest income	**55,461**	49,256	45,175
Provision for credit losses	**1,593**	(70)	4,031
Net interest income after provision for credit losses	**53,868**	49,326	41,144
Non-interest income			
Patronage income	**9,414**	9,605	8,633
Financially related services income	**270**	301	346
Fee income	**2,987**	3,777	4,038
Other non-interest income	**343**	154	380
Total non-interest income	**13,014**	13,837	13,397
Non-interest expense			
Salaries and employee benefits	**11,673**	10,635	10,038
Other operating expense	**12,109**	10,301	7,778
Other non-interest expense	**40**	91	77
Total non-interest expense	**23,822**	21,027	17,893
Income before income taxes	**43,060**	42,136	36,648
Provision for income taxes	**816**	1,154	745
Net income	**$ 42,244**	$ 40,982	$ 35,903
Other comprehensive income (loss)			
Employee benefit plans activity	**$ 432**	$ (42)	$ (391)
Total other comprehensive income (loss)	**432**	(42)	(391)
Comprehensive income	**$ 42,676**	$ 40,940	$ 35,512

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

AgHeritage Farm Credit Services, ACA

(in thousands)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance as of December 31, 2019	$ 1	$ 2,943	$ 321,852	$ (825)	$ 323,971
Net income	--	--	35,903	--	35,903
Other comprehensive loss	--	--	--	(391)	(391)
Unallocated surplus designated for patronage distributions	--	--	(5,959)	--	(5,959)
Capital stock and participation certificates issued	--	415	--	--	415
Capital stock and participation certificates retired	(1)	(265)	--	--	(266)
Balance as of December 31, 2020	--	3,093	351,796	(1,216)	353,673
Net income	--	--	40,982	--	40,982
Other comprehensive loss	--	--	--	(42)	(42)
Unallocated surplus designated for patronage distributions	--	--	(6,964)	--	(6,964)
Capital stock and participation certificates issued	--	468	--	--	468
Capital stock and participation certificates retired	--	(237)	--	--	(237)
Balance as of December 31, 2021	--	3,324	385,814	(1,258)	387,880
Net income	**--**	**--**	**42,244**	**--**	**42,244**
Other comprehensive income	**--**	**--**	**--**	**432**	**432**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(8,377)**	**--**	**(8,377)**
Capital stock and participation certificates issued	**--**	**410**	**--**	**--**	**410**
Capital stock and participation certificates retired	**--**	**(220)**	**--**	**--**	**(220)**
Balance as of December 31, 2022	**$ --**	**$ 3,514**	**$ 419,681**	**$ (826)**	**$ 422,369**

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

AgHeritage Farm Credit Services, ACA

(in thousands)

For the year ended December 31		**2022**		2021		2020
Cash flows from operating activities						
Net income	**$**	**42,244**	$	40,982	$	35,903
Depreciation on premises and equipment		**571**		515		468
Gain on sale of premises and equipment, net		**(19)**		(79)		(22)
Amortization of discounts on loans and investment securities		**(92)**		(68)		(55)
Provision for credit losses		**1,593**		(70)		4,031
Stock patronage received from AgriBank, FCB		**(6,806)**		(1,303)		--
Loss (gain) on other property owned, net		**--**		36		(4)
Changes in operating assets and liabilities:						
(Increase) decrease in accrued interest receivable		**(8,671)**		(240)		2,547
Decrease (increase) in other assets		**1,863**		(1,692)		(1,655)
Increase (decrease) in accrued interest payable		**6,800**		412		(3,005)
Increase in other liabilities		**2,952**		1,637		203
Net cash provided by operating activities		**40,435**		40,130		38,411
Cash flows from investing activities						
Increase in loans, net		**(175,758)**		(188,910)		(279,445)
Purchases of investment in AgriBank, FCB, net		**(5,103)**		(7,047)		(5,308)
Purchases of investment in other Farm Credit institutions, net		**(71)**		--		(183)
Proceeds from investment securities		**250**		275		392
Proceeds from sales of other property owned		**--**		49		174
Purchases of premises and equipment, net		**(2,212)**		(689)		(588)
Net cash used in investing activities		**(182,894)**		(196,322)		(284,958)
Cash flows from financing activities						
Increase in note payable to AgriBank, FCB, net		**149,339**		162,240		251,624
Patronage distributions paid		**(6,928)**		(5,964)		(4,959)
Capital stock and participation certificates issued (retired), net		**48**		(84)		(118)
Net cash provided by financing activities		**142,459**		156,192		246,547
Net change in cash		**--**		--		--
Cash at beginning of year		**--**		--		--
Cash at end of year	**$**	**--**	$	--	$	--
Supplemental information						
Interest paid	**$**	**28,678**	$	21,820	$	28,025
Taxes paid, net		**449**		673		963

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AgHeritage Farm Credit Services, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Farm Credit System and District

The Farm Credit System (System) is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations, established by Congress to meet the credit needs of American agriculture. As of January 1, 2023, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 61 borrower-owned cooperative lending institutions (associations). AgriBank, FCB (AgriBank), a System Farm Credit Bank, and its District associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). The AgriBank District associations consist of local Agricultural Credit Associations (ACA) that each have wholly-owned Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries.

FLCAs are authorized to originate long-term real estate mortgage loans. PCAs are authorized to originate short-term and intermediate-term loans. ACAs are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their subsidiaries. Associations are authorized to provide lease financing options for agricultural purposes and are also authorized to purchase and hold certain types of investments. AgriBank provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related service businesses. In addition, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a System lending institution, but have operations that are functionally similar to the activities of eligible borrowers.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System banks and associations. We are examined by the FCA and certain association actions are subject to the prior approval of the FCA and/or AgriBank.

The Farm Credit System Insurance Corporation (FCSIC) administers the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used to ensure the timely payment of principal and interest on Systemwide debt obligations, to ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes.

At the discretion of the FCSIC, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the FCSIC. Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2.0% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the FCSIC, at its sole discretion, to a percentage it determines to be actuarially sound. The basis for assessing premiums is debt outstanding with adjustments made for nonaccrual loans and impaired investment securities which are assessed a surcharge while guaranteed loans and investment securities are deductions from the premium base. AgriBank, in turn, assesses premiums to District associations each year based on similar factors.

Association

AgHeritage Farm Credit Services, ACA (the Association) and its subsidiaries, AgHeritage Farm Credit Services, FLCA and AgHeritage Farm Credit Services, PCA (subsidiaries) are lending institutions of the System. We are a borrower-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Arkansas, Ashley, Bradley, Chicot, Cleburne, Cleveland, Desha, Drew, Fulton, Independence, Izard, Jackson, Jefferson, Lawrence, Lincoln, Lonoke, Monroe, Prairie, Pulaski, Randolph, Sharp, Stone, White, and Woodruff in the state of Arkansas.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries.

We offer credit life, term life, credit disability, crop hail, and multi-peril crop insurance to borrowers and those eligible to borrow. We also offer fee appraisals to our members.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Policies

Our accounting and reporting policies conform to generally accepted accounting principles in the United States of America (GAAP) and the prevailing practices within the financial services industry. Preparing financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Principles of Consolidation

The Consolidated Financial Statements present the consolidated financial results of AgHeritage Farm Credit Services, ACA and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Loans: Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs, unamortized deferred fees and costs on originated loans, and unamortized premiums or discounts on purchased loans. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Origination fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income. The net amount of loan fees and related origination costs are not material to the Consolidated Financial Statements taken as a whole. Throughout this Annual Report, there may be references to loan volume which is defined as loan principal plus accrued interest receivable.

Generally we place loans in nonaccrual status when principal or interest is delinquent for 90 days or more (unless the loan is adequately secured and in the process of collection) or circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status and the interest is determined to be both uncollectible and the loss is known, we reverse current year accrued interest to the extent principal plus accrued interest exceeds the net realizable value of the collateral prior to reclassification. When we deem a loan to be uncollectible, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and certain other criteria are met. In these circumstances interest is credited to income when cash is received. Loans are charged-off at the time they are determined to be uncollectible. Nonaccrual loans may be returned to accrual status when principal and interest are current, the customer's ability to fulfill the contractual payment terms is fully expected, and, if the loan was past due when placed in nonaccrual status, the loan has evidence of sustained performance in making on-time contractual payments (typically based on payment frequency).

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR), also known as a formally restructured loan for regulatory purposes. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans (as defined below). There may be modifications made in the normal course of business that would not be considered TDRs.

Loans that are sold as participations are transferred as entire financial assets, groups of entire financial assets, or participating interests in the loans. The transfers of such assets or participating interests are structured such that control over the transferred assets, or participating interests have been surrendered and that all of the conditions have been met to be accounted for as a sale.

Allowance for Loan Losses: The allowance for loan losses is our best estimate of the amount of losses on loans inherent in our portfolio as of the date of the financial statements. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Loans in our portfolio that are considered impaired are assessed individually to establish a specific allowance. A loan is impaired when it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. We generally measure impairment based on the net realizable value of the collateral. Risk loans include nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due. All risk loans are considered to be impaired loans.

We record a specific allowance to reduce the carrying amount of the risk loan by the amount the recorded investment exceeds the net realizable value of collateral. When we deem a loan to be uncollectible, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

We determine the amount of allowance that is required by assessing risk loans individually and all other loans by combining them into groups of loans sharing similar risk characteristics. For loans that are not individually assessed for impairment, an allowance is recorded for probable and estimable credit losses as of the financial statement date, using a two-dimensional loan risk rating model that incorporates a 14-point rating scale to identify and track the probability of borrower default and a separate 6-point scale addressing the loss severity. The combination of estimated default probability and loss severity is the primary basis for recognition and measurement of loan collectability of these pools of loans. These estimated losses may be adjusted for relevant current environmental factors.

Changes in the allowance for loan losses consist of provision activity, recorded in "Provision for credit losses" in the Consolidated Statements of Comprehensive Income, recoveries, and charge-offs.

Investment in AgriBank: Our stock investment in AgriBank is on a cost plus allocated equities basis.

Investment Securities: We are authorized by the FCA to purchase and hold certain types of investments. As we have the positive intent and ability to hold these investments to maturity, they have been classified as held-to-maturity and are carried at cost adjusted for the amortization of premiums and accretion of discounts. If an investment is determined to be other-than-temporarily impaired, the carrying value of the security is written down to fair value. The impairment loss is separated into credit related and non-credit related components. The credit related component is expensed through Net income in the Consolidated Statements of Comprehensive Income in the period of impairment. The non-credit related component is recognized in other comprehensive income. Purchased premiums and discounts are amortized or accreted using the interest method over the terms of the respective securities. Realized gains and losses are determined using specific identification method and are recognized in current operations.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation and is included in "Other assets" in the Consolidated Statements of Condition. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Depreciation and maintenance and repair expenses are included in "Other operating expense" in the Consolidated Statements of Comprehensive Income and improvements are capitalized.

Leases: We are the lessee in operating leases. We evaluate arrangements at inception to determine if it is a lease. Leases with an initial term of 12 months or less are not recorded on the Consolidated Statements of Condition with lease expense recognized on a straight-line basis over the lease term. For operating leases with terms greater than 12 months the right-of-use (ROU) assets are included in “Other assets” in the Consolidated Statements of Condition and the lease liabilities are included in “Other liabilities” in the Consolidated Statements of Condition.

The ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. Our lease terms may include options to extend or terminate the lease. The length of the lease term is modified to include the option when it is reasonably certain that we will exercise that option. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term.

Post-Employment Benefit Plans: The District has various post-employment benefit plans in which our employees participate. Expenses related to these plans, except for the AgriBank District Pension Restoration Plan, are included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income.

Certain employees participate in the AgriBank District Retirement Plan. The plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001, are on the cash balance formula or on the final average pay formula. Benefits eligible employees hired between October 1, 2001, and December 31, 2006, are on the cash balance formula. Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. The AgriBank District Retirement Plan utilizes the "Projected Unit Credit" actuarial method for financial reporting and funding purposes.

Certain employees also participate in the AgriBank District Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits. The pension liability attributable to the Pension Restoration Plan at the Association and the related accumulated other comprehensive loss are included in the Consolidated Statements of Condition. The components of the net periodic cost other than the service cost component, are included in “Other operating expense” in the Consolidated Statements of Comprehensive Income. Service costs are included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income.

We also provide certain health insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated cost of these benefits is accrued during the employees’ active service period.

The defined contribution plan allows eligible employees to save for their retirement either pre-tax, post-tax, or both, with an employer match on a percentage of the employee’s contributions. We provide benefits under this plan for those employees that do not participate in the AgriBank District Retirement Plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred.

Certain employees also participate in the Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the Internal Revenue Service (IRS), are either a Chief Executive Officer or President of a participating employer, or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus, and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the retirement savings plan if it were not for certain IRS limitations.

Income Taxes: The ACA and PCA accrue federal and state income taxes. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. The expected future tax consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act.

Patronage Program: We accrue patronage distributions according to a prescribed formula approved by the Board of Directors. Generally, we pay the accrued patronage during the first quarter after year end.

Off-Balance Sheet Credit Exposures: Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. The commitments to extend credit generally have fixed expiration dates or other termination clauses. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. Any reserve for unfunded lending commitments and unexercised letters of credit is based on management’s best estimate of losses inherent in these instruments, but the commitments have not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement are utilized in determining a reserve, if needed. Based on our assessment, any reserve is recorded in “Other liabilities” in the Consolidated Statements of Condition and a corresponding loss is recorded in “Provision for credit losses” in the Consolidated Statements of Comprehensive Income.

Cash: For purposes of reporting cash flow, cash includes cash on hand.

Fair Value Measurement: The accounting guidance describes three levels of inputs that may be used to measure fair value.

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, quoted prices that are not current, or principal market information that is not released publicly
- Inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks, and default rates
- Inputs derived principally from or corroborated by observable market data by correlation or other means

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own judgments about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements in alignment with other System institutions.

Standard and effective date	Description	Adoption status and financial statement impact
In March 2020, the FASB issued Accounting Standards Update (ASU) 2020-04 "Reference Rate Reform, Topic 848." In January 2021, the FASB issued ASU 2021-01 further amending Topic 848. This guidance may be elected and applied prospectively over time beginning March 12, 2020. In December 2022, the FASB issued ASU 2022-06 "Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848", which deferred the sunset date of Topic 848 to December 31, 2024. After December 31, 2024, entities will no longer be permitted to apply the relief in Topic 848.	The guidance provides optional expedients and exceptions for applying GAAP to contracts and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contract terms related to the replacement of the reference rate.	During March 2021, we adopted this standard. Additionally, we intend to apply the relief granted in the extension. To date, the adoption of this standard has not had a material impact on our financial condition, results of operations, cash flows, and financial statement disclosures.
In June 2016, the FASB issued ASU 2016-13 "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for our first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 which amended the mandatory effective date for this guidance for certain institutions. We qualified for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023 and early adoption is permitted.	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 determine credit loss estimates.	We adopted the standard as of January 1, 2023. As a result of adoption of this guidance, the allowance for loan losses decreased by $6.8 million and the reserve for unfunded commitments increased by approximately $140 thousand, with a cumulative-effect increase, net of tax balances, to retained earnings of $6.2 million. The adoption of the standard did not have a material impact related to our held-to-maturity investment portfolio as all of these investments carry a full faith and credit guarantee of the U.S. government or an implicit credit guarantee from its agencies and have an immaterial risk of credit loss. No allowance for credit losses was recognized in relation to our investment portfolio upon adoption.
In March 2022, the FASB issued ASU 2022-02 "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures." The guidance is effective at the same time that ASU 2016-13 is adopted.	This guidance eliminates the accounting guidance for troubled debt restructurings by creditors in Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings.	We adopted the standard on January 1, 2023. The adoption of this guidance did not have a material impact on our financial statements, but will modify certain disclosures beginning with our first quarter 2023 Quarterly Report.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)	**2022**		2021		2020	
As of December 31	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 1,150,764**	**54.7%**	$ 1,096,717	56.9%	$ 936,709	53.9%
Production and intermediate-term	**510,439**	**24.3%**	477,736	24.8%	440,329	25.3%
Agribusiness	**355,041**	**16.9%**	286,442	14.9%	295,371	17.0%
Other	**87,084**	**4.1%**	66,417	3.4%	66,604	3.8%
Total	**$ 2,103,328**	**100.0%**	$ 1,927,312	100.0%	$ 1,739,013	100.0%

The other category is primarily composed of rural infrastructure and rural residential real estate loans.

Portfolio Concentrations

Loan concentrations exist when there are amounts loaned to multiple borrowers engaged in similar activities or within close proximity, which could cause them to be similarly impacted by economic or other conditions. We lend primarily within agricultural industries.

As of December 31, 2022, volume plus commitments, excluding government guaranteed portions of loans, to our ten largest borrowers totaled an amount equal to 6.2% of total loans and commitments.

Total loans plus any unfunded commitments represent a proportionate maximum potential credit risk. However, substantial portions of our lending activities are collateralized. Accordingly, the credit risk associated with lending activities is less than the recorded loan principal. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include real estate, equipment, inventory, livestock, and income-producing property. Long-term real estate loans are secured by the first liens on the underlying real property.

Participations

We may purchase or sell participation interests with other parties to diversify risk, manage loan volume, or comply with the limitations of the FCA Regulations or General Financing Agreement (GFA) with AgriBank.

Participations Purchased and Sold

(in thousands)	AgriBank Participations		Other Farm Credit Institutions Participations		Total Participations	
As of December 31, 2022	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	**$ --**	**$ (32,707)**	**$ 70,703**	**$ (100,451)**	**$ 70,703**	**$ (133,158)**
Production and intermediate-term	**--**	**(6,271)**	**47,088**	**(18,851)**	**47,088**	**(25,122)**
Agribusiness	**--**	**(9,098)**	**273,545**	**(48,901)**	**273,545**	**(57,999)**
Other	**--**	**--**	**83,535**	**(8,771)**	**83,535**	**(8,771)**
Total	**$ --**	**$ (48,076)**	**$ 474,871**	**$ (176,974)**	**$ 474,871**	**$ (225,050)**

	AgriBank Participations		Other Farm Credit Institutions Participations		Total Participations	
As of December 31, 2021	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (30,956)	$ 63,133	$ (96,837)	$ 63,133	$ (127,793)
Production and intermediate-term	--	--	43,602	(20,399)	43,602	(20,399)
Agribusiness	--	(34,644)	199,594	(122,557)	199,594	(157,201)
Other	--	--	54,350	--	54,350	--
Total	$ --	$ (65,600)	$ 360,679	$ (239,793)	$ 360,679	$ (305,393)

	AgriBank Participations		Other Farm Credit Institutions Participations		Total Participations	
As of December 31, 2020	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (13,940)	$ 49,060	$ (40,349)	$ 49,060	$ (54,289)
Production and intermediate-term	--	--	42,278	(20,556)	42,278	(20,556)
Agribusiness	--	(96,343)	207,139	(306,592)	207,139	(402,935)
Other	--	--	54,112	--	54,112	--
Total	$ --	$ (110,283)	$ 352,589	$ (367,497)	$ 352,589	$ (477,780)

Credit Quality and Delinquency

We utilize the FCA Uniform Classification System to categorize loans into five credit quality categories. The categories are:

- Acceptable – loans are non-criticized loans representing the highest quality. They are expected to be fully collectible. This category is further differentiated into various probabilities of default.
- Other assets especially mentioned (Special Mention) – loans are currently collectible but exhibit some potential weakness. These loans involve increased credit risk, but not to the point of justifying a substandard classification.
- Substandard – loans exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – loans exhibit similar weaknesses as substandard loans. Doubtful loans have additional weaknesses in existing factors, conditions, and values that make collection in full highly questionable.
- Loss – loans are considered uncollectible.

We had no loans categorized as loss at December 31, 2022, 2021, or 2020.

Credit Quality of Loans

(dollars in thousands)	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2022	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 1,146,433**	**98.2%**	**$ 18,718**	**1.6%**	**$ 2,544**	**0.2%**	**$ 1,167,695**	**100.0%**
Production and intermediate-term	**486,596**	**92.9%**	**32,228**	**6.2%**	**4,900**	**0.9%**	**523,724**	**100.0%**
Agribusiness	**340,456**	**95.3%**	**10,430**	**2.9%**	**6,367**	**1.8%**	**357,253**	**100.0%**
Other	**84,347**	**96.6%**	**1,325**	**1.5%**	**1,636**	**1.9%**	**87,308**	**100.0%**
Total	**$ 2,057,832**	**96.4%**	**$ 62,701**	**2.9%**	**$ 15,447**	**0.7%**	**$ 2,135,980**	**100.0%**

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2021	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 1,075,359	96.8%	$ 23,357	2.1%	$ 12,240	1.1%	$ 1,110,956	100.0%
Production and intermediate-term	447,033	91.9%	26,990	5.5%	12,423	2.6%	486,446	100.0%
Agribusiness	272,670	94.9%	7,270	2.5%	7,590	2.6%	287,530	100.0%
Other	64,679	97.3%	1,213	1.8%	609	0.9%	66,501	100.0%
Total	$ 1,859,741	95.3%	$ 58,830	3.0%	$ 32,862	1.7%	$ 1,951,433	100.0%

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2020	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 906,381	95.3%	$ 26,509	2.8%	$ 17,672	1.9%	$ 950,562	100.0%
Production and intermediate-term	406,638	90.6%	33,193	7.4%	9,045	2.0%	448,876	100.0%
Agribusiness	275,896	92.9%	9,488	3.2%	11,514	3.9%	296,898	100.0%
Other	65,321	97.9%	643	1.0%	708	1.1%	66,672	100.0%
Total	$ 1,654,236	93.8%	$ 69,833	4.0%	$ 38,939	2.2%	$ 1,763,008	100.0%

Note: Accruing loans include accrued interest receivable.

Aging Analysis of Loans

(in thousands) **As of 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
Real estate mortgage	**$ 1,710**	**$ 244**	**$ 1,954**	**$ 1,165,741**	**$ 1,167,695**
Production and intermediate-term	**378**	**42**	**420**	**523,304**	**523,724**
Agribusiness	**177**	**--**	**177**	**357,076**	**357,253**
Other	**34**	**--**	**34**	**87,274**	**87,308**
Total	**$ 2,299**	**$ 286**	**$ 2,585**	**$ 2,133,395**	**$ 2,135,980**

As of December 31, 2021		30-89 Days Past Due		90 Days or More Past Due		Total Past Due		Not Past Due or Less Than 30 Days Past Due		Total
Real estate mortgage	$	926	$	1,358	$	2,284	$	1,108,672	$	1,110,956
Production and intermediate-term		2,539		32		2,571		483,875		486,446
Agribusiness		--		--		--		287,530		287,530
Other		186		--		186		66,315		66,501
Total	$	3,651	$	1,390	$	5,041	$	1,946,392	$	1,951,433

As of December 31, 2020		30-89 Days Past Due		90 Days or More Past Due		Total Past Due		Not Past Due or Less Than 30 Days Past Due		Total
Real estate mortgage	$	884	$	6,585	$	7,469	$	943,093	$	950,562
Production and intermediate-term		1,155		796		1,951		446,925		448,876
Agribusiness		931		--		931		295,967		296,898
Other		331		29		360		66,312		66,672
Total	$	3,301	$	7,410	$	10,711	$	1,752,297	$	1,763,008

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at December 31, 2022, 2021, or 2020.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. Interest income recognized and cash payments received on nonaccrual risk loans are applied as described in Note 2.

Risk Loan Information

(in thousands)

As of December 31		**2022**		2021		2020
Nonaccrual loans:						
Current as to principal and interest	**$**	**5,085**	$	2,190	$	2,284
Past due		**320**		1,522		8,139
Total nonaccrual loans		**5,405**		3,712		10,423
Accruing restructured loans		**--**		--		--
Accruing loans 90 days or more past due		**--**		--		--
Total risk loans	**$**	**5,405**	$	3,712	$	10,423
Volume with specific allowance	**$**	**4,424**	$	66	$	1,880
Volume without specific allowance		**981**		3,646		8,543
Total risk loans	**$**	**5,405**	$	3,712	$	10,423
Total specific allowance	**$**	**900**	$	41	$	641

For the year ended December 31		**2022**		2021		2020
Income on accrual risk loans	**$**	**--**	$	1	$	--
Income on nonaccrual loans		**504**		938		944
Total income on risk loans	**$**	**504**	$	939	$	944
Average risk loans	**$**	**3,549**	$	9,104	$	11,635

Note: Accruing loans include accrued interest receivable.

Nonaccrual Loans by Loan Type

(in thousands)

As of December 31		**2022**		2021		2020
Real estate mortgage	**$**	**424**	$	2,986	$	8,693
Production and intermediate-term		**48**		91		981
Agribusiness		**4,416**		--		--
Other		**517**		635		749
Total	**$**	**5,405**	$	3,712	$	10,423

Additional Impaired Loan Information by Loan Type

(in thousands)	As of December 31, 2022 Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	For the year ended December 31, 2022 Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ --	$ --	$ --	$ 347	$ --
Production and intermediate-term	--	--	--	17	--
Agribusiness	4,416	4,541	891	1,560	--
Other	8	22	9	14	--
Total	$ 4,424	$ 4,563	$ 900	$ 1,938	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 424	$ 1,439	$ --	$ 1,013	$ 456
Production and intermediate-term	48	3,302	--	50	34
Agribusiness	--	--	--	--	--
Other	509	713	--	548	14
Total	$ 981	$ 5,454	$ --	$ 1,611	$ 504
Total impaired loans:					
Real estate mortgage	$ 424	$ 1,439	$ --	$ 1,360	$ 456
Production and intermediate-term	48	3,302	--	67	34
Agribusiness	4,416	4,541	891	1,560	--
Other	517	735	9	562	14
Total	$ 5,405	$ 10,017	$ 900	$ 3,549	$ 504

	As of December 31, 2021 Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	For the year ended December 31, 2021 Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 6	$ 46	$ 7	$ 202	$ --
Production and intermediate-term	40	536	14	102	--
Agribusiness	--	--	--	--	--
Other	20	32	20	24	--
Total	$ 66	$ 614	$ 41	$ 328	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 2,980	$ 4,034	$ --	$ 7,219	$ 446
Production and intermediate-term	51	3,342	--	129	472
Agribusiness	--	--	--	777	--
Other	615	817	--	651	21
Total	$ 3,646	$ 8,193	$ --	$ 8,776	$ 939
Total impaired loans:					
Real estate mortgage	$ 2,986	$ 4,080	$ 7	$ 7,421	$ 446
Production and intermediate-term	91	3,878	14	231	472
Agribusiness	--	--	--	777	--
Other	635	849	20	675	21
Total	$ 3,712	$ 8,807	$ 41	$ 9,104	$ 939

	As of December 31, 2020			For the year ended December 31, 2020	
	Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 997	$ 993	$ 223	$ 847	$ --
Production and intermediate-term	853	846	393	1,052	--
Agribusiness	--	--	--	--	--
Other	30	29	25	29	--
Total	$ 1,880	$ 1,868	$ 641	$ 1,928	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 7,696	$ 7,968	$ --	$ 8,418	$ 711
Production and intermediate-term	128	3,851	--	492	231
Agribusiness	--	--	--	--	--
Other	719	894	--	797	2
Total	$ 8,543	$ 12,713	$ --	$ 9,707	$ 944
Total impaired loans:					
Real estate mortgage	$ 8,693	$ 8,961	$ 223	$ 9,265	$ 711
Production and intermediate-term	981	4,697	393	1,544	231
Agribusiness	--	--	--	--	--
Other	749	923	25	826	2
Total	$ 10,423	$ 14,581	$ 641	$ 11,635	$ 944

[1]The recorded investment is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

[2]Unpaid principal balance represents the contractual principal balance of the loan.

We had no material commitments to lend additional money to borrowers whose loans were classified as risk loans at December 31, 2022.

Troubled Debt Restructurings (TDRs)

Included within our loans are TDRs. These loans have been modified by granting a concession to maximize the collection of amounts due when a borrower is experiencing financial difficulties. All risk loans, including TDRs, are analyzed within our allowance for loan losses.

TDR Activity

(in thousands)

For the year ended December 31	**2022**		2021		2020	
	Pre-modification	Post-modification	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	**$ --**	**$ --**	$ 47	$ 6	$ --	$ --
Other	**--**	**--**	--	--	196	194
Total	**$ --**	**$ --**	$ 47	$ 6	$ 196	$ 194

Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. The recorded investment is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

The primary types of modification included interest rate reduction below market and forgiveness of principal.

There were no TDRs that defaulted during the years ended December 31, 2022, or 2021, in which the modification was within twelve months of the respective reporting period. We had TDRs in the other loan category of $186 thousand that defaulted during the year ended December 31, 2020, in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of December 31	2022	2021	2020
Total TDRs:			
Real estate mortgage	$ 1	$ 6	$ --
Other	335	370	411
Total TDRs	$ 336	$ 376	$ 411

All TDRs outstanding at December 31, 2022, 2021, and 2020 were in nonaccrual status. There were no material commitments to lend to borrowers whose loans have been modified in a TDR at December 31, 2022.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) For the year ended December 31	2022	2021	2020
Balance at beginning of year	$ 9,823	$ 10,919	$ 7,693
Provision for loan losses	1,469	(49)	3,973
Loan recoveries	43	5	48
Loan charge-offs	(40)	(1,052)	(795)
Balance at end of year	$ 11,295	$ 9,823	$ 10,919

The "Provision for credit losses" in the Consolidated Statements of Comprehensive Income includes a provision for loan losses as presented in the previous chart, as well as a provision for credit losses on unfunded commitments. The reserve for unfunded commitments are recorded in "Other liabilities" in the Consolidated Statements of Condition. Typically, the reserve for unfunded commitments is relieved and replaced with an allowance for loan loss as the related commitments are funded.

Credit Loss Information on Unfunded Commitments

(in thousands) For the year ended December 31	2022	2021	2020
Provision for credit losses	$ 124	$ (21)	$ 58
As of December 31	2022	2021	2020
Reserve for unfunded commitments	$ 238	$ 114	$ 135

Changes in Allowance for Loan Losses and Year End Recorded Investments by Loan Type

(in thousands)	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2021	$ 5,191	$ 2,043	$ 2,387	$ 202	$ 9,823
Provision for loan losses	165	38	907	359	1,469
Loan recoveries	28	15	--	--	43
Loan charge-offs	(7)	(23)	--	(10)	(40)
Balance as of December 31, 2022	$ 5,377	$ 2,073	$ 3,294	$ 551	$ 11,295
Ending balance: individually evaluated for impairment	$ --	$ --	$ 891	$ 9	$ 900
Ending balance: collectively evaluated for impairment	$ 5,377	$ 2,073	$ 2,403	$ 542	$ 10,395
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2022	$ 1,167,695	$ 523,724	$ 357,253	$ 87,308	$ 2,135,980
Ending balance: individually evaluated for impairment	$ 424	$ 48	$ 4,416	$ 517	$ 5,405
Ending balance: collectively evaluated for impairment	$ 1,167,271	$ 523,676	$ 352,837	$ 86,791	$ 2,130,575

	Real Estate Mortgage		Production and Intermediate-Term		Agribusiness		Other		Total
Allowance for loan losses:									
Balance as of December 31, 2020	$	5,181	$	2,546	$	3,021	$	171	$ 10,919
Provision for loan losses		950		(400)		(634)		35	(49)
Loan recoveries		1		4		--		--	5
Loan charge-offs		(941)		(107)		--		(4)	(1,052)
Balance as of December 31, 2021	$	5,191	$	2,043	$	2,387	$	202	$ 9,823
Ending balance: individually evaluated for impairment	$	7	$	14	$	--	$	20	$ 41
Ending balance: collectively evaluated for impairment	$	5,184	$	2,029	$	2,387	$	182	$ 9,782
Recorded investment in loans outstanding:									
Ending balance as of December 31, 2021	$	1,110,956	$	486,446	$	287,530	$	66,501	$ 1,951,433
Ending balance: individually evaluated for impairment	$	2,986	$	91	$	--	$	635	$ 3,712
Ending balance: collectively evaluated for impairment	$	1,107,970	$	486,355	$	287,530	$	65,866	$ 1,947,721

	Real Estate Mortgage		Production and Intermediate-Term		Agribusiness		Other		Total
Allowance for loan losses:									
Balance as of December 31, 2019	$	2,719	$	2,909	$	1,817	$	248	$ 7,693
Provision for loan losses		2,516		330		1,204		(77)	3,973
Loan recoveries		18		17		--		13	48
Loan charge-offs		(72)		(710)		--		(13)	(795)
Balance as of December 31, 2020	$	5,181	$	2,546	$	3,021	$	171	$ 10,919
Ending balance: individually evaluated for impairment	$	223	$	393	$	--	$	25	$ 641
Ending balance: collectively evaluated for impairment	$	4,958	$	2,153	$	3,021	$	146	$ 10,278
Recorded investment in loans outstanding:									
Ending balance as of December 31, 2020	$	950,562	$	448,876	$	296,898	$	66,672	$ 1,763,008
Ending balance: individually evaluated for impairment	$	8,692	$	981	$	--	$	750	$ 10,423
Ending balance: collectively evaluated for impairment	$	941,870	$	447,895	$	296,898	$	65,922	$ 1,752,585

The recorded investment is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

NOTE 4: INVESTMENT IN AGRIBANK

As of December 31, 2022, we were required by AgriBank to maintain an investment equal to 2.55% of the average quarterly balance of our note payable.

We are also required to hold AgriBank stock related to our participation in a pool program. The required investment amount varies by pool program and is generally a percentage of the loan balance in the pool.

AgriBank's capital plan provides for annual retirement of AgriBank stock and optimizes capital at AgriBank by distributing all available AgriBank earnings in the form of patronage, either in cash or stock. The plan is designed to maintain capital adequacy such that sufficient earnings will be retained in the form of allocated retained earnings and allocated stock to meet the leverage ratio target and other regulatory or policy constraints prior to any cash patronage distributions.

NOTE 5: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a GFA and substantially all of our assets serve as collateral.

Note Payable Information

(dollars in thousands)

As of December 31		**2022**		2021		2020
Line of credit	**$**	**2,300,000**	$	2,300,000	$	1,600,000
Outstanding principal under the line of credit		**1,745,144**		1,595,805		1,433,565
Interest rate		**2.9%**		1.4%		1.5%

Our note payable is scheduled to mature on May 31, 2024. We intend to renegotiate the note payable no later than the maturity date.

The GFA provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to outstanding balances, credit quality, and financial condition. Additionally, we have requirements to maintain an effective program of internal controls over financial reporting. At December 31, 2022, and throughout the year, we were not declared in default under any GFA covenants or provisions.

NOTE 6: MEMBERS' EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each borrower is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act and our capital bylaws, the Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2.0% of the customer's total loan(s) or one thousand dollars, whichever is less. The purchase of one participation certificate is required of all non-stockholder customers who purchase financial services. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower acquires ownership of the capital stock at the time the loan is made. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by customers.

Regulatory Capitalization Requirements

Regulatory Capital Requirements and Ratios

As of December 31	**2022**	2021	2020	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:						
Common equity tier 1 ratio	**15.5%**	16.2%	16.8%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**15.5%**	16.2%	16.8%	6.0%	2.5%	8.5%
Total capital ratio	**16.0%**	16.7%	17.3%	8.0%	2.5%	10.5%
Permanent capital ratio	**15.6%**	16.3%	16.9%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	**16.8%**	17.5%	18.1%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**16.7%**	18.6%	19.0%	1.5%	N/A	1.5%

Risk-adjusted assets have been defined by the FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets.

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

These ratios are based on a three-month average daily balance in accordance with the FCA Regulations and are calculated as follows (not all items below may be applicable to our Association):

- Common equity tier 1 ratio is statutory minimum purchased member stock, other required member stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to retirement, unallocated retained earnings as regulatorily prescribed, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required member stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt, and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for credit losses subject to certain limitations, less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings as regulatorily prescribed, paid-in capital, subordinated debt, and preferred stock subject to certain limitations, less certain allocated and purchased investments in other System institutions divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- Unallocated retained earnings and equivalents leverage ratio is unallocated retained earnings as regulatorily prescribed, paid-in capital, allocated surplus not subject to retirement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

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

Description of Equities

The following represents information regarding classes and number of shares of stock and participation certificates outstanding. All shares and participation certificates are stated at a $5.00 par value.

	Number of Shares		
As of December 31	**2022**	2021	2020
Class C common stock (at-risk)	**679,454**	640,840	595,633
Participation certificates (at-risk)	**23,363**	23,835	22,899

Under our bylaws, we are also authorized to issue Class B common stock and Class D common stock. Each of these classes of common stock is at-risk and nonvoting. Class B common stock has a $5.00 par value per share and the Class D common stock has a $1,000 par value per share. Currently, no stock of these classes has been issued.

Only holders of Class C common stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared to date.

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

In the event of our liquidation or dissolution, according to our bylaws, any assets remaining after payment or retirement of all liabilities shall be distributed in the following order of priority.

- first, pro rata to holders of common stock and participation certificates
- second, any remaining assets of the Association after such distribution shall be distributed to present and former patrons on a patronage basis, to the extent practicable

Any impairment of capital stock shall be treated as impairing all shares of common stock and participations certificates pro rata.

All classes of stock are transferable to other customers who are eligible to hold such class of stock. Transfers of stock are only allowed if we meet the regulatory minimum capital requirements.

Patronage Distributions

We accrued patronage distributions of $8.5 million, $7.0 million, and $6.0 million at December 31, 2022, 2021, and 2020, respectively. Generally, the patronage distributions are paid in cash during the first quarter after year end. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

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

NOTE 7: INCOME TAXES

Provision for Income Taxes

Provision for Income Taxes

(dollars in thousands)

For the year ended December 31	**2022**	2021	2020
Current:			
Federal	**$ 849**	$ 555	$ 532
State	**251**	167	201
Total current	**$ 1,100**	$ 722	$ 733
Deferred:			
Federal	**$ (250)**	$ 323	$ 9
State	**(34)**	109	3
Total deferred	**(284)**	432	12
Provision for income taxes	**$ 816**	$ 1,154	$ 745
Effective tax rate	**1.9%**	2.7%	2.0%

Reconciliation of Taxes at Federal Statutory Rate to Provision for Income Taxes

(in thousands)

For the year ended December 31	2022	2021	2020
Federal tax at statutory rates	**$ 9,043**	$ 8,849	$ 7,696
State tax, net	**176**	212	143
Patronage distributions	**(1,774)**	(1,470)	(1,260)
Effect of non-taxable entity	**(6,516)**	(6,470)	(5,852)
Other	**(113)**	33	18
Provision for income taxes	**$ 816**	$ 1,154	$ 745

Deferred Income Taxes

Tax laws require certain items to be included in our tax returns at different times than the items are reflected on our Consolidated Statements of Comprehensive Income. Some of these items are temporary differences that will reverse over time. We record the tax effect of temporary differences as deferred tax assets and liabilities netted on our Consolidated Statements of Condition.

Deferred Tax Assets and Liabilities

(in thousands)

As of December 31	2022	2021	2020
Allowance for loan losses	**$ 801**	$ 884	$ 1,220
Accrued incentive	**181**	190	169
Accrued patronage income not received	**--**	(281)	(196)
Accrued pension asset	**(476)**	(410)	(371)
Other assets	**202**	176	162
Other liabilities	**(358)**	(493)	(486)
Deferred tax assets, net	**$ 350**	$ 66	$ 498
Gross deferred tax assets	**$ 1,184**	$ 1,250	$ 1,551
Gross deferred tax liabilities	**$ (834)**	$ (1,184)	$ (1,053)

A valuation allowance for the deferred tax assets was not necessary at December 31, 2022, 2021, or 2020.

We have not provided for deferred income taxes on patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Our total permanent investment in AgriBank is $9.6 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $334.0 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

Our income tax returns are subject to review by various United States taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no uncertain income tax positions at December 31, 2022. In addition, we believe we are no longer subject to income tax examinations for years prior to 2019.

NOTE 8: EMPLOYEE BENEFIT PLANS

Pension and Post-Employment Benefit Plans

Complete financial information for the pension and post-employment benefit plans may be found in the AgriBank 2022 Annual Report.

The Farm Credit Foundations Plan Sponsor and Trust Committees provide oversight of the benefit plans for which AgriBank and District associations are participating employers. These governance committees are comprised of elected or appointed representatives (senior leadership and/or Board of Director members) from the participating organizations. The Plan Sponsor Committee is responsible for employer decisions regarding all benefit plans including retirement benefits. These decisions could include plan design changes, vendor changes, determination of employer subsidies (if any), and termination of specific benefit plans. Any action to change or terminate the retirement plan can only occur at the direction of the AgriBank District participating employers. The Trust Committee is responsible for fiduciary and plan administrative functions.

Pension Plan: Certain employees participate in the AgriBank District Retirement Plan, a District-wide multi-employer defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This plan is noncontributory and covers certain eligible District employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if we choose to stop participating in the plan, we may be required to pay an amount based on the underfunded status of the plan. Because of the nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee transfers to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

AgriBank District Retirement Plan Information

(in thousands)

As of December 31	2022	2021	2020
Unfunded liability	**$ 87,688**	$ 46,421	$ 169,640
Projected benefit obligation	**1,204,130**	1,500,238	1,563,421
Fair value of plan assets	**1,116,442**	1,453,817	1,393,781
Accumulated benefit obligation	**1,083,610**	1,384,554	1,426,270

For the year ended December 31	2022	2021	2020
Total plan expense	**$ 30,475**	$ 28,048	$ 42,785
Our allocated share of plan expenses	**530**	419	638
Contributions by participating employers	**90,385**	90,000	90,000
Our allocated share of contributions	**1,450**	1,272	1,290

Note: The above chart represents the AgriBank District Retirement Plan that is a District-wide post-employment benefit plan in which our employees participate.

The unfunded liability reflects the net of the fair value of the plan assets and the projected benefit obligation at December 31. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The accumulated benefit obligation is the actuarial present value of the benefits attributed to employee service rendered before the measurement date and based on current employee service and compensation. The funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. We recognize our proportional share of expense and contribute a proportional share of funding.

Benefits paid to participants in the District were $132.1 million in 2022. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total District employer contributions expected to be paid into the pension plan during 2023 is $45.0 million. Our allocated share of these pension contributions is expected to be $795 thousand. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements.

Nonqualified Retirement Plan: We also participate in the District-wide nonqualified defined benefit Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits.

Pension Restoration Plan Information

(in thousands)

As of December 31	2022	2021	2020
Our unfunded liability	**$ 2,265**	$ 2,352	$ 2,006

The nonqualified plan is funded as the benefits are paid; therefore, there are no assets in the plan and the unfunded liability is equal to the projected benefit obligation. The amount of the pension benefits funding status is subject to many variables including interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their participants in the plan. The Pension Restoration Plan is unfunded, we have a Rabbi Trust to fund our future liability under this plan. A Rabbi Trust is a trust created for the purpose of supporting the nonqualified benefit obligation of employers to their employees. There were no benefits paid under the Pension Restoration Plan to our senior officers who were actively employed during the year.

Retiree Medical Plans: District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plans. The anticipated costs of these benefits are accrued during the period of the employee’s active status. Net periodic benefit cost is included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income. Postretirement benefit costs related to the retiree medical plans were not considered material for any of the years presented. Our cash contributions were equal to the benefits paid.

Defined Contribution Plans

We participate in a District-wide defined contribution plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2.0% and 50 cents on the dollar on the next 4.0% on both pre-tax and post-tax contributions. The maximum employer match is 4.0%. For employees hired after December 31, 2006, we contribute 3.0% of the employee’s compensation and will match employee contributions dollar for dollar up to a maximum of 6.0% on both pre-tax and post-tax contributions. The maximum employer contribution is 9.0%.

We also participate in a District-wide Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the IRS, are either a Chief Executive Officer or President of a participating employer, or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus, and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the defined contribution plan if it were not for certain IRS limitations.

Employer contribution expenses for the defined contribution plan, included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income, were $542 thousand, $486 thousand, and $423 thousand in 2022, 2021, and 2020, respectively. These expenses were equal to our cash contributions for each year.

NOTE 9: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions may be subject to special approval requirements contained in the FCA Regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2022, involved more than a normal risk of collectability.

Related Party Loans Information

(in thousands)

As of December 31		**2022**		2021		2020
Total related party loans	**$**	**50,208**	$	42,338	$	34,983
For the year ended December 31		**2022**		2021		2020
Advances to related parties	**$**	**52,596**	$	32,119	$	35,063
Repayments by related parties		**47,420**		30,350		29,010

The related parties can be different each year end primarily due to changes in the composition of the Board of Directors and the mix of organizations with which such persons may be associated. Advances and repayments on loans in the preceding chart are related to those considered related parties at each respective year end.

As described in Note 5, we borrow from AgriBank, in the form of a line of credit, to fund our loan portfolio. All interest expense as shown on the Consolidated Statements of Comprehensive Income was paid to AgriBank.

Total patronage from AgriBank was $9.3 million, $9.5 million, and $8.5 million in 2022, 2021, and 2020, respectively. Patronage income for 2022 and 2021 was received in cash and AgriBank stock. Patronage income for 2020 was received in cash.

In addition, we received compensation from AgriBank for servicing loans of $71 thousand, $113 thousand, and $76 thousand in 2022, 2021, and 2020, respectively.

Refer to Note 3 for information on participations sold to AgriBank and Note 4 for stock investment in AgriBank information.

As of December 31, 2022, we purchased certain business services from AgriBank. Until the formation of SunStream Business Services (SunStream) on April 1, 2020, we also purchased financial and retail information technology, collateral, and tax reporting from AgriBank. These services are now purchased from SunStream. We also purchase human resource, benefit, payroll, and workforce management services from Farm Credit Foundations (Foundations). SunStream and Foundations are both System service corporations within the AgriBank District and the costs incurred are included in the table below in AgriBank District purchased services. In addition to the services we purchase from AgriBank, SunStream, and Foundations we also hold an investment in each of these institutions.

Additional Related Party Information

(in thousands)

As of December 31		**2022**		2021		2020
Investment in AgriBank	**$**	**58,535**	$	46,626	$	38,276
Investment in SunStream		**400**		329		329
Investment in Foundations		**13**		13		13
For the year ended December 31		**2022**		2021		2020
AgriBank District purchased services	**$**	**1,524**	$	1,125	$	884

NOTE 10: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2022, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $584.5 million. Additionally, we had $3.4 million of issued standby letters of credit as of December 31, 2022.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses and we may require payment of a fee. If commitments to extend credit and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit and letters of credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable us to recover from third parties amounts paid under guarantees, thereby limiting our maximum potential exposure. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on management's credit evaluation of the borrower.

In June 2021, we signed an agreement guaranteeing the amounts borrowed by SunStream on their line of credit with AgriBank, up to $40.0 million. The term of the line of credit is 36 months and may be extended. The guarantee is in effect until any outstanding balance is paid in full. While we are primarily liable for our pro-rata portion of SunStream's indebtedness to AgriBank, we are jointly and severally liable with certain other owners of SunStream. In the event of default by SunStream, we are responsible for the prompt and full payment of amounts outstanding. However, we may seek reimbursement from the remaining owners of SunStream subject to the guarantee agreement. At this time we believe it is unlikely that we will be required to make payment under this guarantee.

NOTE 11: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at December 31, 2022, 2021, or 2020.

Non-Recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-Recurring Basis

(in thousands)

As of December 31, 2022	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	**$ --**	**$ --**	**$ 3,701**	**$ 3,701**

As of December 31, 2021	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 27	$ 27

As of December 31, 2020	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 1,301	$ 1,301

Valuation Techniques

Impaired Loans: Represents the carrying amount of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

NOTE 12: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 9, 2023, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our 2022 Consolidated Financial Statements or disclosure in the Notes to Consolidated Financial Statements.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

AgHeritage Farm Credit Services, ACA
(Unaudited)

Description of Business

General information regarding the business is incorporated herein by reference from Note 1 to the Consolidated Financial Statements in this Annual Report.

The description of significant business developments, if any, is incorporated herein by reference from the Management's Discussion and Analysis section of this Annual Report.

Description of Property

Property Information

Location	Description	Usage
Little Rock	Leased	Headquarters
Batesville	Leased	Branch
Brinkley	Owned	Branch
Lonoke	Owned	Branch
McGehee	Owned	Branch
Newport	Owned	Branch
Pine Bluff	Leased	Branch
Pocahontas	Owned	Branch
Searcy	Owned	Branch
Stuttgart	Owned	Branch

Legal Proceedings

Information regarding legal proceedings is included in Note 10 to the Consolidated Financial Statements in this Annual Report. We were not subject to any enforcement actions as of December 31, 2022.

Description of Capital Structure

Information regarding our capital structure is included in Note 6 to the Consolidated Financial Statements in this Annual Report.

Description of Liabilities

Information regarding liabilities is included in Notes 5, 6, 7, 8, and 10 to the Consolidated Financial Statements in this Annual Report. All debt and other liabilities in the financial statements are uninsured.

Selected Financial Data

The Consolidated Five-Year Summary of Selected Financial Data is presented at the beginning of this Annual Report.

Management's Discussion and Analysis

Information regarding any material aspects of our financial condition, changes in financial condition, and results of operations are discussed in the Management's Discussion and Analysis section of this Annual Report.

Board of Directors

Our Board of Directors is organized into the following committees to carry out Board responsibilities:

The **Audit Committee** oversees financial reporting, the adequacy of our internal control systems, the scope of the Association's internal audit program, the independence of the outside auditors and the processes for monitoring compliance with laws and regulations. The Audit Committee also oversees the adequacy of management's actions with respect to recommendations arising from auditing activities.

The **Finance Committee** monitors our financial and capital planning, asset/liability management and funding and investment activities. Committee members serve as a resource to the Board by maintaining a more in-depth knowledge of our financial activities.

The **Executive Committee** addresses issues of board governance and the Board's continuing efforts to strengthen and renew the Board, administers a process for maintaining and periodically reviewing board policies and administers a planning process focused upon achieving our mission and maintaining a viable, competitive institution. The committee is authorized to take action on behalf of the Board on matters requiring board approval between normally scheduled board meetings, when necessary. Such authorization is to be reviewed and acted upon at the next board meeting.

The **Human Resources Committee** oversees and provides overall direction and/or recommendations for compensation, benefits and human resource performance management programs.

The **Member Relations Committee** provides direction on the Association's agriculture public policy position at the local, state and national level. Committee members serve as a resource for maintaining high quality member relations/involvement programs, board involvement of market and customer needs and in developing programs to attract young and beginning and next generation farmers.

Board of Directors as of December 31, 2022, including business experience during the last five years

Name	Principal occupation and other business affiliations
Jerry Burkett **Chairperson** **Board Service Began:** 2002 **Current Term Expires:** April 2025	**Principal occupation:** Self-employed grain farmer **Other business affiliations:** Board member of Museum of the Arkansas Grand Prairie Board member of Arkansas County Farm Bureau
Clay Schaefer **Vice Chairperson** **Board Service Began:** 2011 **Current Term Expires:** April 2023	**Principal Occupation:** Self-employed grain farmer **Other business affiliations:** Board member of Riceland Foods, Inc. Board member of Tri-County Farmers Association
Russell Bonner **Board Service Began:** 2006 **Current Term Expires:** April 2026	**Principal occupation:** Self-employed grain farmer
Dow Brantley **Board Service Began:** 2020 **Current Term Expires:** April 2024	**Principal occupation:** Self-employed grain and cotton farmer Grain merchant **Other business affiliations:** Board member of Lonoke County Farm Bureau Board member of Arkansas Rice Federation Board member of Arkansas Rice Council Board member of USA Rice Federation Board member of USA Rice International Trade Policy Board member of Agriculture Policy Advisory Committee for USDA and USTR Board member of Arkansas Ag Council
Jesse Briggs **Board Service Began:** 2017 **Current Term Expires:** April 2024	**Principal occupation:** Self-employed grain farmer **Other business affiliations:** Board member of Farelly Lake Levee District
Ray C. "Chuck" Culver III **Outside Director** **Board Service Began:** 1992 **Current Term Expires:** April 2024	**Principal Occupation:** Institutional Development & External Relations Director, Division of Agriculture at the University of Arkansas System
Derek Haigwood **Board Service Began:** 2022 **Current Term Expires:** April 2026	**Principal Occupation:** Self-employed grain farmer **Other business affiliations:** Board member of Jackson County Farm Bureau Board
Mark Isbell **Board Service Began:** 2020 **Current Term Expires:** April 2024	**Principal Occupation:** Self-employed grain farmer **Other business affiliations:** Board member of Arva Intelligence Board, an ag data analytics company Board member of Field to Market Board Board member of Common Ground Arkansas Board member of AgCouncil of Arkansas
Sandra Morgan **Outside Director** **Board Service Began:** 2015 **Current Term Expires:** April 2026	**Principal Occupation:** Vice President and Chief Financial Officer at Riceland Foods, Inc.

Name	Principal occupation and other business affiliations
Jeff Rutledge **Board Service Began:** 2017 **Current Term Expires:** April 2023	**Principal Occupation:** Self-employed grain farmer **Other business affiliations:** Vice chairman of USA Rice Council Board Board member of Arkansas Rice Research and Promotion Board Board member of Arkansas Rice Council Board Board member of Arkansas Rice Federation Board Board member of Newport Levee Board Board member of Jackson County Farm Bureau Board Board member of Ag Council Arkansas Waterways Commission Board Board member of AgriBank District Farm Credit Council
Rhonda Stone **Board Service Began:** 2021 **Current Term Expires:** April 2025	**Principal Occupation:** Vice President of Finance and Administration at Black River Technical College Self-employed grain farmer
Scott Young **Board Service Began:** 2013 **Current Term Expires:** April 2025	**Principal Occupation:** Self-employed grain and timber farmer Partner in Dogwood Farms President and shareholder in Jim Young Farms, Inc. **Other business affiliations:** Board member of Ashley County Farm Bureau

Pursuant to our bylaws, directors are paid a reasonable amount for attendance at board meetings, committee meetings, or other special assignments. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. Our Board of Directors has adopted a rate of $750 per day and $150 per conference call. Board members also received a $5,000 annual retainer fee, except for the Board Chairperson, Vice Chairperson and Audit Committee Chair, who received a retainer fee of $9,000, $7,500, and $7,500, respectively.

Information regarding compensation paid to each director who served during 2022 follows:

	Number of Days Served		Compensation Paid for Service on a Board Committee		
Name	Board Meetings	Other Official Activities		Name of Committee	Total Compensation Paid in 2022
Russell Bonner	8.5	8.5	$ 525	Finance ($375), Executive($150)	$ 17,900
Dow Brantley	7.5	7.5	375	Finance ($375)	16,250
Jesse Briggs	5.5	4.5	375	Finance ($375)	12,500
Jerry Burkett	8.5	23.5	1,050	Audit ($375), Finance ($375), Executive ($150), HR ($150)	38,325
Ray C. "Chuck" Culver III	8.5	0.0	--		11,375
Derek Haigwood[1]	4.5	6.0	--		12,875
Mark Isbell	8.5	9.0	750	Audit ($375), Finance ($375)	18,125
Sandra Morgan	8.5	6.0	3,175	Audit Chair Retainer ($2,500), Audit ($525), Executive ($150)	18,675
Dwain Morris[2]	3.0	0.0	--		2,250
Jeff Rutledge	8.5	27.0	375	Audit ($375)	31,625
Clay Schaefer	8.5	29.5	150	HR ($150)	37,350
Rhonda Stone	8.5	5.0	750	Audit ($750)	15,125
Scott Young	8.5	4.0	150	HR ($150)	14,525
					$ 246,900

[1] Elected to the Board in April 2022

[2] Term expired in April 2022

Senior Officers

Senior Officers as of December 31, 2022, including business experience during the last five years

Name and Position	Business experience and other business affiliations
Gregory W. Cole President/Chief Executive Officer	**Business experience:** President/Chief Executive Officer since April 2008
Kenneth L. Sumner SVP/Chief Financial Officer	**Business experience:** SVP/Chief Financial Officer since August 2009 **Other business affiliations:** Board Treasurer of Wade Knox Child Advocacy Center, a local charity Treasurer of Arkansas Waterfowl Association, a not-for-profit organization that raises funds to support local charities and to provide outdoor opportunities for children who would not have the opportunity otherwise
Drue Ford SVP/Chief Credit Officer	**Business experience:** SVP/Chief Credit Officer since October 2006
Leslie J. Brown VP Chief Human Capital Officer	**Business experience:** VP Chief Human Capital Officer since February 2015 **Other business affiliations:** Treasurer of Arkansas Compensation Association, which provides information and leadership to compensation professionals
Blake Swindle SVP/Chief Operating Officer	**Business experience:** SVP/Chief Operating Officer since May 2022 SVP/Chief Commercial Lending Officer from March 2020 to May 2022 VP of Agribusiness Lending from 2015 to March 2020

Senior Officer Compensation

Compensation Risk Management: We believe the design and governance of our CEO, senior officer, and highly compensated individuals compensation program is consistent with the highest standards of risk management and provides total compensation that promotes our mission to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. Our compensation philosophy aims to provide a competitive total rewards package that will enable us to attract and retain highly qualified officers with the requisite expertise and skills while achieving desired business results aligned with the best interests of our members. The design of our CEO, senior officer, and highly compensated individuals compensation program supports our risk management goals through a set of checks and balances, including (1) a balanced mix of base and variable pay, (2) a balanced use of performance measures that are risk-adjusted where appropriate, and (3) a pay-for-performance process that allocates individual awards based on both results and how those results were achieved.

Elements of Compensation: The CEO, senior officers, and highly compensated individuals are compensated with a mix of direct cash and long-term incentives as well as retirement plans generally available to all employees. Our Board of Directors determines the appropriate balance of short-term and long-term incentives while keeping in mind their responsibilities to our members. Base salary and short-term incentives are intended to be competitive with annual compensation for comparable positions at peer organizations.

Base Salary: The CEO, senior officers, and highly compensated individuals base salaries reflect the employee's experience and level of responsibility. Compensation plans for all employees, except the CEO, are subject to review and approval by the Human Resources Committee of our Board of Directors. Information is accumulated regarding competitive market conditions and used in assessing adequate compensation for all employees. The CEO's salary is reviewed and approved by the Board of Directors.

Short-term Incentives: The short-term incentive plan available only to the CEO and senior officers is paid annually based on performance criteria approved by our Human Resources Committee of the Board of Directors. The criteria related to the overall Association performance include return on assets, loan volume, capital ratios, surplus, operating rate, credit quality, credit administration, adverse assets to risk funds, borrower concentration, and customer satisfaction. Additional criteria related to personal performance include attainment of personal objectives and overall performance rating. We calculate the incentives after the end of the plan year (the plan year is the calendar year) and pay out the incentives within 60 days of year-end. There were no material amendments to the plan during the last fiscal year. Highly compensated employees' short-term incentive plan is based on an adjusted pre-tax net income and the employee's individual performance. Individual performance includes a variety of objectives, including credit quality, fees, growth, and job competencies. There were no material changes to the plan during the last fiscal year.

Other incentives: We have a retention incentive available to all employees, including the CEO, senior officers, and highly compensated individuals. The incentive is paid with an annual component and a long-term component, subject to the participant's employment after three years. Eligibility to participate in this incentive program includes the employee's most recent performance as well as specialized knowledge and strategic role of his/her position. Due to the retention nature of this incentive, it is reported in the compensation table, on the following page, in the period paid. In addition, we have a sales incentive plan that is available to all full-time branch employees. The incentives are paid for sales of insurance and leasing products, are paid monthly, and are subject to the cap set by the Farm Credit Administration (FCA).

Retirement Plans: We have various post-employment benefit plans which are generally available to all Association employees, including the CEO, senior officers, and highly compensated individuals, based on dates of service to the Association and are not otherwise differentiated by position, unless specifically stated. Information regarding the post-employment benefit plans is included in Notes 2 and 8 to the Consolidated Financial Statements in this Annual Report.

Other Components of Compensation: Additionally, compensation associated with any company-paid vehicles, group term life insurance premiums, disability insurance premiums, or on the spot incentives, such as gift cards, may be made available to the CEO, senior officers, and highly compensated individuals based on job criteria or similar plans available to all employees.

Compensation to the CEO, Senior Officers, and Highly Compensated Individuals

(in thousands) Name	Year		Salary		Bonus		Deferred/ Perquisites		Other		Total
Gregory W. Cole, CEO	**2022**	$	**501**	$	**260**	$	**9**	$	**(94)**	$	**676**
Gregory W. Cole, CEO	2021		473		238		8		343		1,062
Gregory W. Cole, CEO	2020		446		223		7		915		1,591
Aggregate Number of Senior Officers and Highly Compensated Individuals, excluding CEO											
Six[1]	**2022**	$	**928**	$	**335**	$	**34**	$	**(191)**	$	**1,106**
Five	2021		877		341		33		181		1,432
Five	2020		827		321		25		84		1,257

[1]Includes compensation for one individual that resigned in February 2022.

The FCA Regulations require the disclosure of the total compensation paid during the last fiscal year to all senior officers and highly compensated individuals included in the above table be available and disclosed to our members upon request.

The amount in the "Other" category in the preceding table primarily includes:

- Employer match on defined contribution plans available to all employees.
- Changes in the value of pension benefits. The change in value of the pension benefits is defined as the change in the vested portion of the present value of the accumulated benefit obligation from December 31 of the prior year to December 31 of the most recent year for the District-wide Pension Plan and the Pension Restoration Plan, as applicable, as disclosed in Note 8 to the Consolidated Financial Statements in this Annual Report. This change in value does not represent cash payments made by the Association during the year, but rather is an estimate of the change in the Association's future obligations under the pension plans. The change in the value of the pension benefits is highly sensitive to discount rates used to value the plan liabilities to participants.

No tax reimbursements are made to the CEO, senior officers, or highly compensated individuals.

Generally, pension benefits increase annually as a result of an additional year of credited service and related compensation for plan participants. The value of the pension benefits can also be significantly impacted by changes in interest rates as of the measurement date.

Pension Benefits Attributable to the CEO, Senior Officers, and Highly Compensated Individuals

(dollars in thousands) **2022** Name	Plan	Years of Credited Service		Present Value of Accumulated Benefits		Payments Made During the Reporting Period
Gregory W. Cole, CEO	AgriBank District Retirement Plan	**40.0**	$	**3,055**	$	**--**
Gregory W. Cole, CEO	AgriBank District Pension Restoration Plan	**40.0**		**1,861**		**--**
Aggregate Number of Senior Officers and Highly Compensated Individuals, excluding CEO						
Four	AgriBank District Retirement Plan	**23.7**	$	**1,402**	$	**--**

Senior officers and highly compensated individuals in the above table includes those who resigned during the year.

The change in composition of the aggregate senior officers and highly compensated individuals can have a significant impact on the calculation of the accumulated pension benefits.

Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. Therefore, any employee starting employment with the AgriBank District after that date is not eligible to be in the plan.

The AgriBank District Pension Restoration Plan restores retirement benefits to certain highly compensated employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits. Not all senior officers or highly compensated employees are eligible to participate in this plan.

Transactions with Senior Officers and Directors

Information regarding related party transactions is included in Note 9 to the Consolidated Financial Statements in this Annual Report.

Travel, Subsistence, and Other Related Expenses

Directors and senior officers are reimbursed for reasonable travel, subsistence, and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at:

119 East Third Street, Suite 200
Little Rock, AR 72201
(800) 299-2290
www.agheritagefcs.com

The total directors' travel, subsistence, and other related expenses were $401 thousand, $305 thousand, and $77 thousand in 2022, 2021, and 2020, respectively.

Involvement in Certain Legal Proceedings

No events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2023, or at any time during 2022.

Member Privacy

The FCA Regulations protect members' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our Association or our members not normally contained in published reports or press releases.

Relationship with Qualified Public Accountant

There were no changes in the independent auditors since the last Annual Report to members and we are in agreement with the opinion expressed by the independent auditors. The total financial statement audit fees paid during 2022 were $99 thousand. Our engagement letter commits to reimbursing the external auditor for reasonable out-of-pocket expenses as incurred for travel. We also incurred $13 thousand for work related to our implementation of new accounting guidance, which was pre-approved by the Audit Committee.

Financial Statements

The Report of Management, Report on Internal Control over Financial Reporting, Report of Audit Committee, Report of Independent Auditors, Consolidated Financial Statements, and Notes to Consolidated Financial Statements are presented prior to this portion of the Consolidated Financial Statements in this Annual Report.

Young, Beginning, and Small Farmers and Ranchers

Information regarding credit and services to young, beginning, and small farmers and ranchers, and producers or harvesters of aquatic products is included in an addendum to this Annual Report.

YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

AgHeritage Farm Credit Services, ACA

(Unaudited)

We have specific programs in place to serve the credit and related needs of young, beginning, and small farmers and ranchers (YBS) in our territory. The definitions of YBS as developed by the Farm Credit Administration (FCA) follow:

- Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
- Beginning: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the loan transaction date.
- Small: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250 thousand in annual gross sales of agricultural or aquatic products.

Demographics

We have compared counts of our YBS borrowers against the 2017 Ag Census data. The census reports at a county level the age, years on farm and gross receipts. Some of the census categories are not perfect comparisons for our YBS reporting methodology. The Ag Census' Small comparison is most similar as the Ag Census counts the population of farms with sales less than $250 thousand. The Young category is the next best comparison by reporting operations with Principal Producer less than 35 years of age, while YBS parameters include those 35 years of age or less. Finally, the Beginning category is least similar. The Ag Census does not quantify years of experience, but it does report a "New and Beginning" category with Principal Producer with Years on Any Operation into a category of Less than 11 Years. While not an exact comparison for YBS Beginning category, it is used as the best comparison available. Finally, the two disparate populations pose another analysis challenge. The census measures the total population regardless of borrowing characteristics; while we operate within a sub-group of the Ag Census based on farmers who both finance their operation and who finance with AgHeritage Farm Credit Services, ACA.

The following chart compares our 2022 YBS customers to the 2017 Ag Census:

Total Farms	Census < 10 Years	AgHeritage Beginning	% of Census Category
12,122	4,632	2,338	50.5%
	Census < 35 Years	**AgHeritage Young**	**% of Census Category**
	1,299	1,336	102.8%
	Census Sales < 250k	**AgHeritage Young**	**% of Census Category**
	10,523	2,725	25.9%

The 2017 Ag Census total number of farms in the AgHeritage LSA (local service area) is 12,122. This declined from the 12,882 total number of farms in the 2012 Ag Census for the AgHeritage LSA. The 2012 versus 2017 Ag Census for our LSA showed increases in the Ag Census number of Young and Beginning farms and a decrease in the number of Small farms. Small farms in the 1997-2017 trend showed small annual increases over the previous Ag Census in 2002 and 2007 (7% and 3%) followed by a 13% decline in 2012 and a 4% decline in 2017. Beginning farms had increases over the previous Ag Census in 2002 and 2007 (7% and 8%), a large decline (75%) in 2012 followed by a 44% increase in 2017. For Young (New) farms, there were decreases from the prior Ag Census in 2002, 2007, and 2012 (7%, 3% and 12%) with an increase in the 2017 Ag Census of 36%.

The AgHeritage trend in Young borrowers for 2003 through 2022 was steady annual increases of 1- 20% through 2012. Starting in 2013 the number of Young borrowers began to decrease between 4-10% per year. From 2016 through 2018, the number of Young borrowers remained stable. 2019 through 2022 saw increases in Young borrowers in a range from 4.7% to 9.4% each year. Beginning borrowers also increased in most years from 2003 through 2014 with increases ranging from 1-19% annually. In 2015 through 2017, Beginning borrowers decreased in a range of 2.2 – 6.6%. In 2018 through 2022, Beginning borrowers increased in range of 1.6 to 7.7% each year. Small borrowers have been more volatile, ranging from slight decreases (≤ 3%) in most early years, except for a 13% decrease in 2006 but followed by a 15% increase in 2009. The period of 2013 through 2017 saw decreases ranging from 1.3% to 9.5% while 2018 through 2022 saw increases in Small borrowers ranging from 6.4% to 10.6%.

Mission Statement

Management and the Board of Directors feel that it is strategically important to support and develop YBS programs. Our YBS Farmer Program mission is to develop and implement programs to attract Young, Beginning and Small and next generation farmers and to strive to reach numeric goals for YBS customers.

Quantitative Goals

(dollars thousands)

	2022 Goals		2022 Actual Results		2023 Goals		2024 Goals		2025 Goals	
	# Loans	Volume	# Loans	Volume	# Loans	Volume	# Loans	Volume	# Loans	Volume
Young	1,090	$ 260,000	1,336	$ 371,126	1,120	$ 280,000	1,160	$ 310,000	1,180	$ 320,000
Beginning	1,920	490,000	2,338	629,492	1,940	510,000	1,950	530,000	1,960	550,000
Small	1,990	245,000	2,725	371,261	2,030	265,000	2,070	285,000	2,090	305,000

Qualitative Goals

The following related services were offered to YBS farmers during 2022:

- crop insurance, both hail and multi-peril
- life insurance
- fee real estate appraisal services
- equipment and facility leasing

We made use of federal loan guarantee programs in providing loans and leases to YBS farmers. We maintain a Preferred Lender Program designation with the Farm Service Agency.

Outreach Programs

In addition to loans made to YBS and Next Generation borrowers, our annual YBS reports have consistently shown active participation in a variety of YBS outreach efforts. These efforts include both staff time and monetary sponsorship through the following:

We encourage the use of Young and Beginning farmer programs like those offered by the Farm Service Agency and the Cooperative Extension Service.

We continue to sponsor an annual scholarship program for college bound or current college students with one winner from each branch office.

We continue to sponsor and participate in the annual Arkansas State University (ASU) Ag Business Conference and the University of Arkansas (UA) – Division of Agriculture's Women in Ag Conference.

We support the Arkansas Farm Family of the Year program. We have enjoyed having members each year who are honored at the local and state level by the Farm Family of the Year program. Implicit in the Farm Family of the Year is the next generation of farming. The honored families are typically multi-generational and include members who frequently fit within our YBS and Next Generation Farmer parameters.

In 2016 AgHeritage began co-hosting a biennial Arkansas State-wide FCS Young Beginning Farmer Conference. This is a joint effort among all Arkansas Farm Credit associations. The conference was designed to provide attendees the opportunity to network with their peers and experienced professionals in finance, credit and economics. State and national expert speakers cover topics that impact YBS producers including the current economic outlook, strategic business planning and financial and risk management.

We sponsor and/or participate in a variety of other Young, Beginning and Small outreach activities including:

- AgHeritage and other Arkansas Farm Credit Associations sponsor, support and participate in various Arkansas Grown activities. Arkansas Grown is an initiative of the Arkansas Department of Agriculture including:
  - Garden Program contest for Arkansas school gardens
  - Local Conversations brings together stakeholders to improve the quality of food reaching consumers
  - Arkansas Grown Magazine
  - Farmers Market Promotion Program
  - Farm2Home
  - Minorities in Ag, Natural Resources, and Related Services
- ASU Student Leadership Conference
- Arkansas Women in Agriculture – sponsorship and attendance of conference and Annie's Project
- University Agriculture Department Scholarship Fundraisers – UA and ASU
- Arkansas Farm Family of the Year Program
- Yearly contributions to FFA and 4-H
- AgHeritage Next Generation Farmer Program
- AgHeritage Farm Credit Services Customer Scholarship Program / University Scholarship / Ken Shea Scholarship
- Junior Livestock Auction: State Fair Belt Buckle Sponsorship and Sale of Champions Sponsorship; Local Fair Livestock Sponsorships
- County Extension Meeting Sponsorships: Crop Production, Marketing, Beef, etc.
- Exhibit/Sponsorships/Attendance:
  - Arkansas Farm Bureau Annual Convention
  - Arkansas Foundation for Agriculture
  - Agricultural Council of Arkansas
  - National Ag Alumni Development Association Conference
  - Midsouth Gin Show

- Arkansas Cattlemen’s Conference; Local Conference
- Arkansas Agricultural Aviation Association
- Poultry Festival
- USA Rice Outlook Conference
- Crossett Rodeo Arena Sponsorship
- Arkansas Soybean Association Annual Meeting
- Arkansas Rice Council/Producers Annual Meeting
- Mid-South Chapter of the American Society of Farm Managers and Rural Appraisers
- Various local county fair associations: Belt Buckle Award sponsor
- Various rural community sports league sponsorships
- Various local golf tournaments
- Farm appreciation lunches

Safety and Soundness of the Program

We will limit the amount of risk classified loans that meet the Next Generation Farmer and/or YBS qualifications. The amount of volume for either will not exceed 25% of the Association’s risk funds. This limit is cumulative and not to be exceeded at any point.

The credit quality guidelines and quarterly monitoring ensure that credit offered to the YBS and Next Generation Farmer groups is provided in a safe and sound manner within our risk-bearing capacity.

FUNDS HELD PROGRAM

AgHeritage Farm Credit Services, ACA
(Unaudited)

AgHeritage Farm Credit Services, ACA (the Association), offers a Funds Held Program ("Funds Held") that provides for customers to make advance payments on designated real estate and intermediate-term loans. The following terms and conditions apply to all Funds Held unless the loan agreement or related documents, between the Association and customer, provide for other limitations.

Payment Application: Loan payments received by the Association before the loan has been billed will be placed into Funds Held upon request and applied against the next installment due. Loan payments received after the loan has been billed will be directly applied to the installment due on the loan and related charges, if any.

When a loan installment becomes due, amounts in Funds Held for the loan will be automatically applied toward the installment on the due date. Any accrued interest on Funds Held will be applied first. If the balance in Funds Held does not fully satisfy the entire installment, the customer must pay the difference by the installment due date.

Account Maximum: The amount in Funds Held may not exceed 50% of each eligible loan. Eligible loans do not include operating lines of credit.

Interest Rate: Interest will accrue on Funds Held at a simple rate of interest that may be changed by the Association from time to time based upon the current interest rate environment. The interest rate may never exceed the interest rate charged on the related loan. Interest rates are currently reported on each customer's loan statement. Subject to change as previously stated, the current rate of interest is equal to the Federal Funds rate of interest as determined by the Federal Open Market Committee. If the Federal Funds rate is stated as a range, the rate of interest will be set within the range.

Withdrawals: Amounts in Funds Held may be withdrawn under the following conditions, depending on the customer's loan program:

- Customers can withdraw funds without a limit as to the number of withdrawals, however the loan officer must approve the withdrawal after receipt of a written customer request. Withdrawals must be for an eligible purpose under the Funds Held program. The minimum withdrawal amount is $100, unless the customer is withdrawing the full Funds Held balance.

- Customers required to assign income to their loan, such as poultry and dairy assignments, may withdraw amounts in excess of their next installment.

Association Options: In the event of default on any loan or if Funds Held exceeds the maximum limit as established above or if the Association discontinues the Funds Held program, the Association may apply funds in the account to the unpaid loan balance and other amounts due and shall return any excess funds to the customer.

Liquidation: Funds Held account balances are not insured. In the event of Association liquidation, all customers having balances in these uninsured accounts shall be notified according to FCA Regulations in effect at that time. Current applicable regulations state that the notice shall instruct that the funds ceased earing interest when the receivership was instituted and will be applied against the outstanding indebtedness of any loans of the customer unless, within 15 days' notice, the customer provides direction to the Association to apply the funds according to existing loan documents.

Questions: Please direct any questions regarding Funds Held to AgHeritage Farm Credit Services, ACA.

PLANTING SEASON

"Agriculture is our wisest pursuit, because it will in the end contribute most to real wealth, good morals & happiness."

— Thomas Jefferson

HARVEST SEASON

"It is only the farmer who faithfully plants seeds in the Spring, who reaps a harvest in the Autumn."

— B.C. Forbes

AgHeritage
Farm Credit Services

ONLINE BANKING

AgHeritage offers a simple and secure online banking platform that is faster, smarter and more intuitive than ever.

Users can make payments, transfer funds, link multi profiles and external accounts, and even deposit checks through the mobile app, all while protecting personal information safely and securely.

- **24/7 online account access**
- **Bills and statements**
- **Secure online messaging**
- **Account alerts**
- **Go paperless**

DOWNLOAD myAgHeritage MOBILE BANKING APP TODAY!

ENROLL TODAY

WHAT YOU WILL NEED:

- **CIF Number**
- **Tax ID or SSN tied to the CIF**
- **Loan Number**
- **Balance of the loan to within 10%**

HOW TO ENROLL:

1. Visit **agheritagefcs.com** and click on myAgHeritage
2. Click on "Enroll or Log In", then click "Enroll Today".
3. Enter your first name, last name and email address. Once you receive an email, click on the link to continue the enrollment process.
4. Select a username, password, image and passphrase.
5. Enter your loan number or social security number, and customer number.

ONLINE BANKING SUPPORT:

As always, feel free to contact your local branch or call our support line at 800-444-3276 for any online banking needs.

AgHeritage
Farm Credit Services

AgHeritageFCS.com/online-banking

TERRITORY &
OFFICE LOCATIONS

BATESVILLE BRANCH
P.O. Box 3850 • 2880 Harrison St. Batesville, AR 72501
(870) 698-9044 • (800) 572-8165

BRINKLEY BRANCH
P.O. Box 767 • 498 Broadmoor Dr. Brinkley, AR 72021
(870) 734-456 • (800) 689-1304

LITTLE ROCK • CENTRAL OFFICE
119 East Third St, Suite 200 Little Rock, AR 72201
(501) 210-4000 • (800) 299-2290

LONOKE BRANCH
P.O. Box 298 • 1121 W. Front St. Lonoke, AR 72086
(501) 676-3144 • (800) 689-1309

MCGEHEE BRANCH
6035 Hwy 65 N McGehee, AR 71654
(870) 222-5205 • (800) 689-6978

NEWPORT BRANCH
P.O. Box 1690 • 2800 Stegall Rd. Newport, AR 72112
(870) 523-5867 • (800) 698-5867

PINE BLUFF BRANCH
800 South Main Street Pine Bluff, AR 71601
(870) 534-5701 • (833) 313-6877

POCAHONTAS BRANCH
P.O. Box 506 • 1105 Pace Rd. Pocahontas, AR 72455
(870) 892-4579 • (800) 689-6976

SEARCY BRANCH
P.O. Box 9035 • 2620 So. Main St. Searcy, AR 72143
(501) 268-3524 • (800) 689-6977

STUTTGART BRANCH
P.O. Box 1005 • 1102 E. 22nd St. Stuttgart, AR 72160
(870) 673-1558 • (800) 689-1307

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