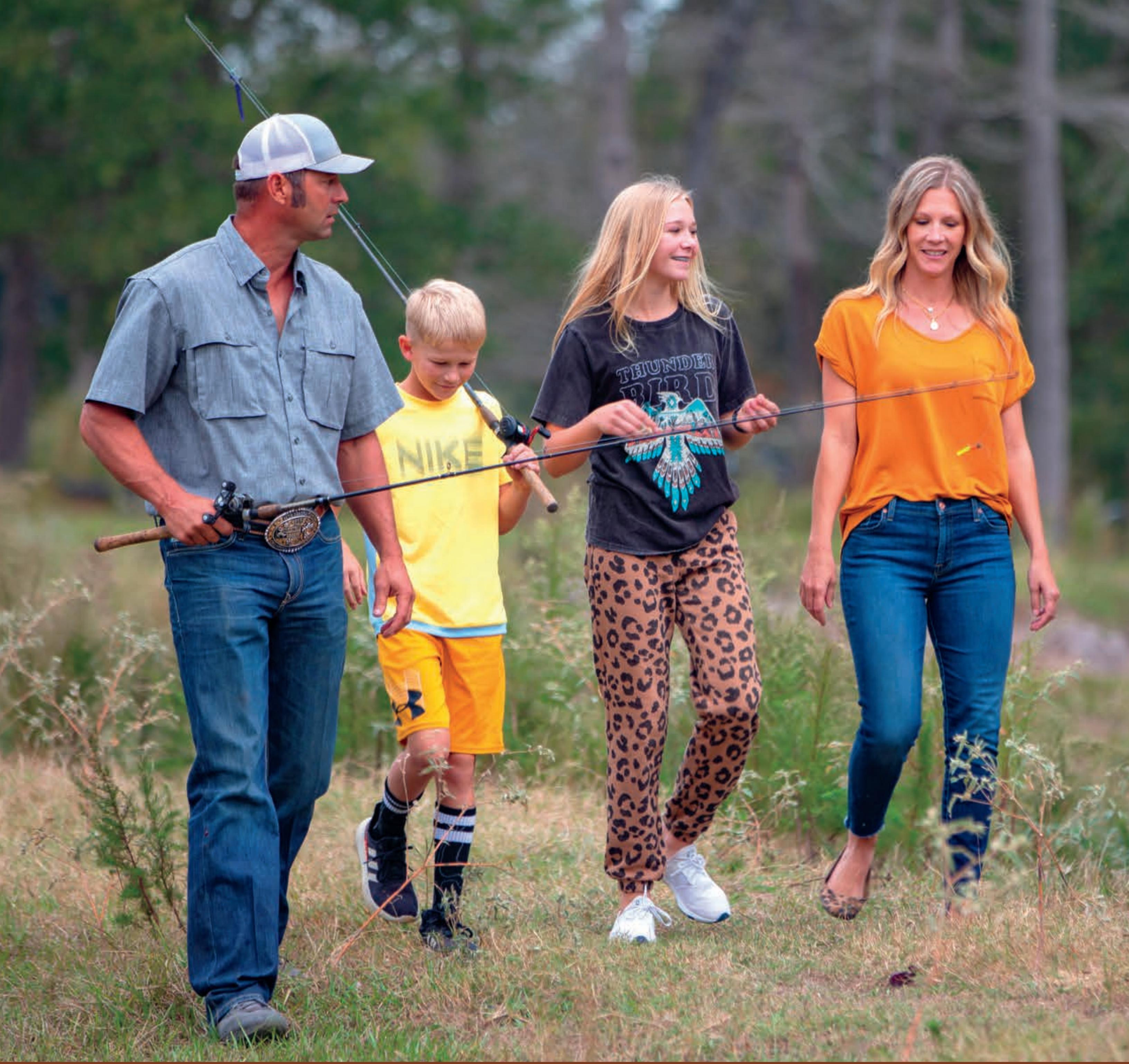
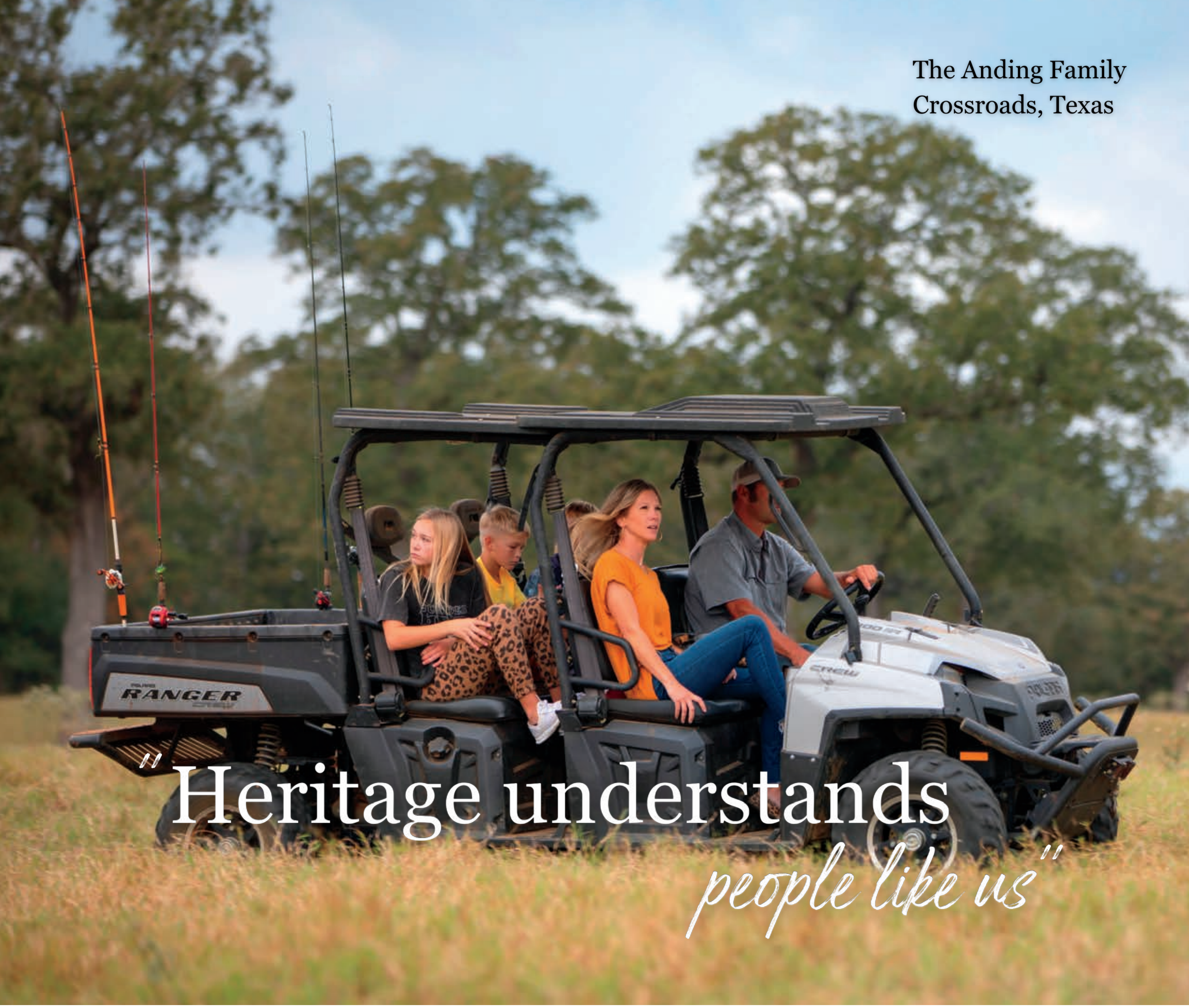


2022 Annual Report

Heritage Land Bank



Steven and Lori Anding just weren't meant for city life.

Like a lot of us, they believe life is better lived alongside tree-filled woods rather than tree-lined streets.

That's why the Andings came to Heritage Land Bank, since rural lending is all we do.

Our team put together a loan based on the Anding's lifestyle, with payments that wouldn't strain their budget.

Because, after all, there's not much sense in owning land, if you can't afford all the toys you need to enjoy it.

HERITAGE LAND BANK

We Have a Unique Perspective – Yours™

$682 Million in Loans

$9.7 Million in Net Income

$6.4 Million in Cash-Back Cooperative Dividends

Financial Highlights

	2022	2021	2020
Loans	$682 million	$660 million	$611 million
Net Income	$9.7 million	$9.6 million	$8.8 million
Cash-Back Cooperative Dividend	$6.4 million	$4.3 million	$3.9 million

Cash-Back Cooperative Dividend

Cooperative dividends are a unique feature of the Farm Credit System, providing member-borrowers the ability to share in the organization's financial success. We believe cooperative dividends should be paid in full and in cash, allowing customers to immediately reinvest their dividends in their communities, families, and operations.

66% of Net Income Returned to Borrowers

$64 Million in Cash Dividends Paid Since 2000

Letter from the Board Chair and CEO

Dear Shareholders:

On behalf of the Heritage Land Bank Board of Directors and management team, we are pleased to report that Heritage Land Bank had a successful 2022.

2022 was a transitional and challenging year from a fiscal standpoint. While the year started with historically low interest rates, the Federal Reserve raised the federal funds rate seven times in 2022, including four consecutive 75 basis point increases. These dramatic steps, intended to slow inflation, increased the effective federal funds rate from 0.08% to 4.33%

The Consumer Price Index rose 6.5% annually from 2021 to 2022, pressuring the average consumer and eroding the confidence seen in recent years. Finally, equity markets fell throughout 2022. The S&P 500 fell 19.4% in 2022, its worst year since 2008. Rural land prices continued to appreciate, increasing 11% in 2022, due to limited inventory and demand from out-of-state buyers.

Against this backdrop, Heritage Land Bank's operating performance was solid. Loan volume increased 1.3% to $682 million, net income increased 0.8% to $9.7 million, and our return on assets was 1.42%.

As a result of our consistently strong financial performance, Heritage Land Bank's Board of Directors has approved a cash dividend of $6.4 million of our 2022 net income to eligible shareholders. This dividend is 66% of our net income, a record level of return that reflects the board's ongoing commitment to share our cooperative's success with you.

In the last 10 years, Heritage Land Bank has returned a total of $34.9 million in cash to borrowers, representing 47% of our net income over that period and fulfilling our commitment to share our financial success with customers. These cash returns are used by customer-shareholders to invest in their operations, families, and communities. It is the intention of the board of directors to return a consistent annual cash-back dividend for the foreseeable future.

While the average consumer was challenged in 2022, Heritage Land Bank was positioned well to endure these financial challenges. Our overall credit quality remains superior, the best of the 14 associations in our Farm Credit district. We have significant loan loss reserves and have not experienced a loan charge-off since 2016.

The board and management team have made investments in major technology updates that will improve internal operating efficiency and our customer's digital experience. We began construction of a new branch in Athens and look forward to opening that location in 2023. We also approved the purchase of property in Nacogdoches to begin relocating and expanding that branch office.

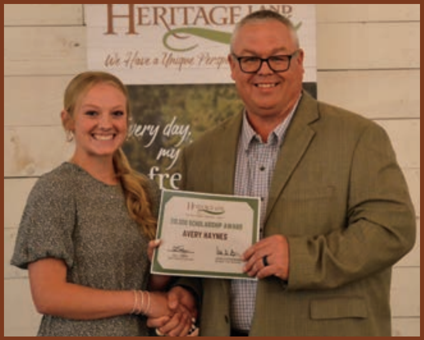
Our mission at Heritage Land Bank is to deliver value to shareholders by continuing the heritage of providing superior service and competitive financial products. Our team, armed with best-in-class technology, is committed to providing unmatched service to our shareholders and solutions to their financial needs.

On behalf of the board of directors and all Heritage Land Bank employees, thank you for your business and the opportunity to serve you, your families, and communities now and for years to come.

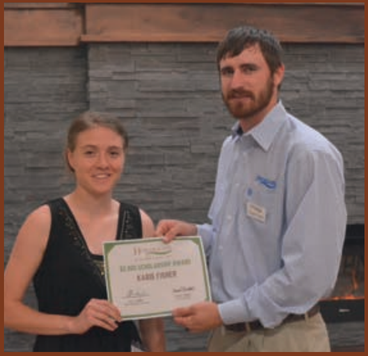
Kevin Sampson
2022 Board Chair

Bill Tandy
Chief Executive Officer

Congratulations to the 2022 Scholarship Winners!

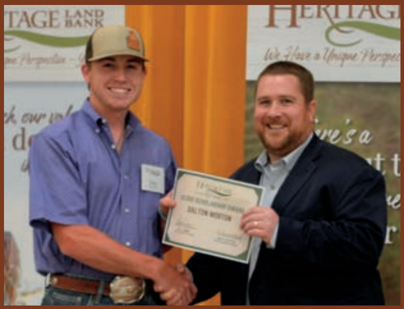


Avery Haynes

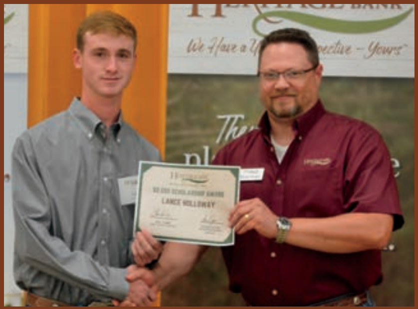


Karis Fisher

Emma Samples



Dalton Morton



Lance Holloway

McKinley Jordan

Table of Contents

REPORT OF MANAGEMENT

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

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

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

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

William M. Tandy, Chief Executive Officer
February 17, 2023

Kevin Sampson, Chair, Board of Directors
February 17, 2023

Heath Gattis, Chief Financial Officer
February 17, 2023

REPORT OF AUDIT COMMITTEE

The Audit Committee (Committee) is composed of five members of the board of directors of Heritage Land Bank, ACA. In 2022, seven committee meetings were held. The committee oversees the scope of Heritage Land Bank, ACA's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on Heritage Land Bank, ACA's website. The committee approved the appointment of Henry & Peters, PC for 2022.

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

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

The committee discussed with Henry & Peters, PC its independence from Heritage Land Bank, ACA. The committee also reviewed the nonaudit services provided by Henry & Peters, PC and concluded that these services were not incompatible with maintaining the independent accountant's independence. The committee has discussed with management and Henry & Peters, PC such other matters and received such assurances from them as the committee deemed appropriate.

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

Audit Committee Members

R. Scott Line, Chair
Roger W. Claxton
Bryan Pickens
Jack S. Pullen
Kevin Sampson

February 17, 2023

HERITAGE LAND BANK, ACA

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

	2022	2021	2020	2019	2018
Balance Sheet Data					
Assets					
Cash	**$ 11**	$ 40	$ 8	$ 216	$ 1,345
Investments	**-**	-	-	-	184
Loans	**669,320**	660,072	611,403	551,868	511,650
Less: allowance for loan losses	**5,506**	5,433	5,272	5,247	5,035
Net loans	**663,814**	654,639	606,131	546,621	506,615
Investment in and receivable from the Farm Credit Bank of Texas	**11,745**	12,412	10,757	10,070	8,692
Other property owned, net	**-**	-	1,078	1,078	1,078
Other assets	**9,428**	8,459	8,304	6,884	6,172
Total assets	**$ 684,998**	$ 675,550	$ 626,278	$ 564,869	$ 524,086
Liabilities					
Obligations with maturities of one year or less	**$ 11,173**	$ 9,652	$ 8,098	$ 7,667	$ 6,264
Obligations with maturities greater than one year	**573,289**	569,201	526,371	470,360	434,717
Total liabilities	**584,462**	578,853	534,469	478,027	440,981
Members' Equity					
Capital stock and participation certificates	**2,664**	2,718	2,648	2,512	2,397
Unallocated retained earnings	**97,778**	94,289	89,507	84,454	80,690
Accumulated other comprehensive income (loss)	**94**	(310)	(346)	(124)	18
Total members' equity	**100,536**	96,697	91,809	86,842	83,105
Total liabilities and members' equity	**$ 684,998**	$ 675,550	$ 626,278	$ 564,869	$ 524,086
Statement of Income Data					
Net interest income	**$ 17,357**	$ 16,708	$ 15,326	$ 14,616	$ 13,655
Income from the Farm Credit Bank of Texas	**4,262**	3,874	3,275	2,773	2,424
Other noninterest income	**416**	834	622	371	1,215
Noninterest expense	**(12,370)**	(11,828)	(10,350)	(10,020)	(9,460)
Net income	**$ 9,665**	$ 9,588	$ 8,873	$ 7,740	$ 7,834
Key Financial Ratios for the Year					
Return on average assets	**1.4%**	1.5%	1.5%	1.4%	1.6%
Return on average members' equity	**9.8%**	10.2%	10.0%	9.1%	9.7%
Net interest income as a percentage of average earning assets	**2.6%**	2.6%	2.7%	2.7%	2.8%
Net charge-offs (recoveries) as a percentage of average loans	**0.0%**	0.0%	0.0%	0.0%	0.0%

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

	2022	2021	2020	2019	2018
Key Financial Ratios at Year End *					
Members' equity as a percentage of total assets	**14.7%**	14.3%	14.7%	15.4%	15.9%
Debt as a percentage of members' equity	**581.3%**	598.6%	582.2%	550.5%	530.6%
Allowance for loan losses as a percentage of loans	**0.8%**	0.8%	0.9%	1.0%	1.0%
Common equity tier 1 ratio	**13.0%**	13.0%	13.7%	14.5%	15.2%
Tier 1 capital ratio	**13.0%**	13.0%	13.7%	14.5%	15.2%
Total capital ratio	**13.9%**	13.8%	14.6%	15.5%	16.2%
Permanent capital ratio	**13.1%**	13.1%	13.8%	14.6%	15.3%
Tier 1 leverage ratio	**12.8%**	12.7%	13.3%	14.5%	14.6%
UREE leverage ratio	**12.4%**	13.7%	14.4%	14.9%	15.6%
Net Income Distribution					
Cooperative dividends accrued	**$ 6,176**	$ 4,805	$ 3,820	$ 3,976	$ 3,300

*The Association’s ratios remained well above the regulatory minimums, including the conservation and leverage buffers at December 31, 2022. For more information, see Note 10 in the accompanying consolidated financial statements, “Members Equity” included in this annual report.

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

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

Forward-Looking Information:

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

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

Patronage Refunds Received From FCBT:

In December 2022, the Association received a direct loan patronage of $3,781,935 from the Farm Credit Bank of Texas (FCBT or "the Bank"), representing 66 basis points on the average daily balance of the Association's direct loan with the Bank. During 2022, the Association received $243,535 in patronage payments from the Bank, based on the Association's stock investment in the Bank.

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

Cooperative Dividend Distributions by Association:

In 2022, 2021, and 2020, the Association paid cooperative dividends of $4,327,156, $3,968,144, and $3,834,399, respectively. In January 2023, the board of directors approved a $6,435,520 cooperative dividend to be paid in March 2023. See Note 10 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

COVID Discussion:

The United States has been operating under a presidentially declared emergency since March 13, 2020 (reaffirmed on February 23, 2022) due to the Coronavirus Disease 2019 (also referred to as COVID-19). During these unprecedented times, the Association continued to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. The Association was able to maintain access to the Farm Credit Bank of Texas as a liquidity source without significant changes to its funding. Through December 31, 2022, and the date of this report, there have been no observable delinquencies or credit metrics materially impacting the credit quality of the Association's loan portfolio related to COVID-19. The Association is closely monitoring its loan portfolio overall and has been particularly focused on sectors that may be pressured by COVID-19 and its related economic impacts, such as oil and gas, food processing, timber, and beef cattle. The Association has adjusted its portfolio monitoring and servicing practices and, if appropriate, will evaluate its allowance for loan losses, if changes in outlook occur. Capital levels remained strong to support any adversity or continuing loan demand.

Operationally, the Association functioned as normal during these challenging times. The Association witnessed the benefits of past and current technology initiatives that allowed Association personnel to work remotely and support both their families and their customer base. As it relates to the Association's internal controls over financial reporting and disclosure controls and procedures, the controls and procedures operated effectively, and no material changes to the controls or financial systems occurred.

The Association continues to monitor the impact of COVID-19 on the global, U.S., and Texas economies. The Association will continue to monitor the situation in the coming year.

Loan Portfolio:

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

The composition of the Association's loan portfolio, including principal less funds held of $669,320,338, $660,072,336, and $611,402,936 as of December 31, 2022, 2021, and 2020, respectively, is described more fully in detailed tables in Note 3 to the consolidated financial statements, "Loans and Allowance for Loan Losses" included in this annual report.

Purchase and Sales of Loans:

During 2022, 2021, and 2020, the Association was participating in loans with other lenders. As of December 31, 2022, 2021, and 2020, these participations totaled $19,534,994, $12,054,346, and $20,509,854, or 2.9 percent, 1.8 percent, and 3.4 percent of loans, respectively. There were no participations purchased from entities outside the Association's district during these years. The Association has also sold participations of $31,873,163, $24,623,211, and $19,431,479 as of December 31, 2022, 2021, and 2020, respectively.

Risk Exposure:

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

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

	2022		2021		2020	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual	**$ 108,736**	**61.1%**	$ 194,728	71.4%	$ 511,468	27.5%
Formally restructured	**69,313**	**38.9%**	77,800	28.6%	270,600	14.5%
Other property owned, net	**-**	**0.0%**	-	0.0%	1,077,925	58.0%
Total	**$ 178,049**	**100.0%**	$ 272,528	100.0%	$ 1,859,993	100.0%

At December 31, 2022, 2021, and 2020, loans that were considered impaired were $178,049, $272,528, and $782,068, representing 0.0 percent, 0.0 percent, and 0.1 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

Except for the relationship between installment due date and seasonal cash-flow capabilities of the borrower, the Association is not affected by any seasonal characteristics. The factors affecting the operations of the Association are the same factors that would affect any agricultural real estate lender.

The majority of Association borrowers have the availability of nonfarm income sources for repayment, which mitigates some of the factors that would affect other agricultural lenders. To help mitigate and diversify credit risk, the Association may implement more restrictive lending standards and may employ practices including securitization of loans, obtaining credit guarantees, and engaging in loan participations.

Allowance for Loan Losses:

The following table provides relevant information regarding the allowance for loan losses as of, or for the year ended, December 31:

	2022	2021	2020
Allowance for loan losses	**$ 5,505,525**	$ 5,432,897	$ 5,272,187
Recoveries	**72,628**	100,710	109,597
Allowance for loan losses to total loans	**0.8%**	0.8%	0.9%
Allowance for loan losses to nonaccrual loans	**5,063.2%**	2,790.0%	1,038.8%
Allowance for loan losses to impaired loans	**3,092.1%**	1,993.5%	674.1%

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

Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of $5,505,525, $5,432,897, and $5,272,187 at December 31, 2022, 2021, and 2020, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates. This is supported by net recoveries, rather than charge-offs, and acceptable loan percentage of greater than 98 percent for each of the past three years.

Results of Operations:

The Association's net income for the year ended December 31, 2022, was $9,664,772 as compared to $9,587,638 for the year ended December 31, 2021, reflecting an increase of $77,134, or 0.8 percent. The Association's net income for the year ended December 31, 2020, was $8,873,486. Net income increased $714,152, or 8.0 percent, in 2021 versus 2020.

Net interest income for 2022, 2021, and 2020 was $17,357,352, $16,708,056, and $15,325,681, respectively, reflecting increases of $649,296, or 3.9 percent, for 2022 versus 2021 and $1,382,375, or 9.0 percent, for 2021 versus 2020. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets, and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2022		2021		2020	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 663,610,524**	**$ 30,145,443**	$ 642,534,689	$ 27,940,802	$ 575,990,515	$ 27,792,892
Interest-bearing liabilities	**572,049,333**	**12,788,091**	556,195,874	11,232,746	493,844,777	12,467,211
Impact of capital	**$ 91,561,191**		$ 86,338,815		$ 82,145,738	
Net interest income		**$ 17,357,352**		$ 16,708,056		$ 15,325,681

	2022 Average Yield	2021 Average Yield	2020 Average Yield
Yield on loans	**4.54%**	4.35%	4.83%
Cost of interest-bearing liabilities	**2.24%**	2.02%	2.52%
Interest rate spread	**2.30%**	2.33%	2.31%

	2022 vs. 2021			2021 vs. 2020		
	Increase due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income - loans	**$ 916,483**	**$ 1,288,158**	**$ 2,204,641**	$ 3,210,889	$(3,062,979)	$ 147,910
Interest expense	**320,176**	**1,235,169**	**1,555,345**	1,574,053	(2,808,518)	(1,234,465)
Net interest income	**$ 596,307**	**$ 52,989**	**$ 649,296**	$ 1,636,836	$ (254,461)	$ 1,382,375

Interest income for 2022 increased by $2,204,641, or 7.9 percent, compared to 2021, due to an increase in yield on earning assets and an increase average loan volume. Interest income for 2021 increased by $147,910, or 0.5 percent, compared to 2020, primarily due to an increase in average loan volume despite a decrease in interest rates. Interest expense for 2022 increased by $1,555,345, or 13.8 percent, compared to 2021, due to an increase in the cost of funds and an increase in average debt volume. Interest expense for 2021 decreased by $1,234,465, or 9.9 percent, compared to 2020, due to a decrease in the cost of funds despite an increase in average debt volume.

The interest rate spread decreased by 3 basis points to 2.30 percent in 2022 from 2.33 percent in 2021, primarily due to an increase in the cost of funds that outpaced the increase in loan yields. The Association is subject to interest rate competition and compression at the origination of each loan, but the subsequent interest rate risk inherent in the Association’s loan portfolio is substantially mitigated through the funding relationship with the Bank. Direct pricing through the Bank limits interest rate risk over the life of each loan. This results in a relatively stable net interest margin. The interest rate spread increased by 2 basis points to 2.33 percent in 2021 from 2.31 percent in 2020, primarily due to a decrease in the cost of funds that outpaced a decrease in loan yields.

Noninterest income for 2022 decreased by $30,553, or 0.7 percent, compared to 2021, primarily due to a $659 net gain on other property owned in 2022 compared to a net gain of $242,227 on other property owned in the prior year, despite an increase in patronage income from the Bank. Noninterest income for 2021 increased by $810,541, or 20.8 percent, compared to 2020, primarily due to an increase in patronage income from the Bank and a $242,227 net gain on other property owned in 2021 compared to a net loss of other property owned of $40,258 in the prior year.

Noninterest expenses, or operating expenses, consist primarily of salaries, employee benefits, and purchased services. Expenses for purchased services may include administrative services, marketing, information systems, accounting, and loan processing, among others. Noninterest expenses for 2022 increased by $541,609, or 4.6 percent, compared to 2021, primarily due to increases in occupancy and equipment costs of $168,352 and salaries and employee benefits of $141,827. Noninterest expenses for 2021 increased by $1,478,764, or 14.3 percent, compared to 2020, primarily due to an increase in salaries and employee benefits of $619,799. Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs resulted in the capitalization of $161,209, $290,025, and $284,336 for 2022, 2021, and 2020, respectively, in origination costs, which will be amortized over the life of the loans as an adjustment to yield in net interest income. The capitalized costs consisted of salaries and benefits totaling $312,789, $293,417, and $270,183, for 2022, 2021, and 2020, respectively, related to the origination of loans.

The $541,609 increase in operating expenses from 2021 to 2022 included an increase of $250,374 in premiums to the Insurance Fund, resulting from an increase in the premium rates from 16 basis points in 2021 to 20 basis points in 2022. The $1,478,764 increase in operating expenses from 2020 to 2021 included an increase of $413,745 in premiums to the Insurance Fund, resulting from an increase in the premium rates from 11 basis points in 2020 to 16 basis points in 2021.

For the year ended December 31, 2022, the Association’s return on average assets was 1.4 percent, as compared to 1.5 percent for the years ended December 31, 2021 and 2020. For the year ended December 31, 2022, the Association’s return on average members’ equity was 9.8 percent, as compared to 10.2 percent and 10.0 percent for the years ended December 31, 2021 and 2020, respectively.

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

Liquidity and Funding Sources:

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

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $572,082,121, $568,220,382, and $525,451,138 as of December 31, 2022, 2021, and 2020, respectively, is recorded as a liability on the Association’s balance sheet. The note carried a weighted average interest rate of 2.5 percent, 2.0 percent, and 2.0 percent at December 31, 2022, 2021, and 2020, respectively. The indebtedness is collateralized by a pledge of substantially all of the Association’s assets to the Bank and is governed by a general financing agreement (GFA). The increase in note payable to the Bank and related accrued interest payable since December 31, 2021, is due to the increase in loan volume related to the growing demand for new financing. The Association’s own funds, which represent the amount of the Association’s loan portfolio funded by the Association’s equity, were $96,505,128, $91,191,789, and $85,201,901 at December 31, 2022, 2021, and 2020, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2022, was $670,290,814 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, which is September 30, 2023, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the

Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The liquidity policy of the Association is to limit cash balances to maximize debt reduction while relying on the direct loan with the Bank to fund increased accrual loan volume. This policy will continue to be pursued during 2023. As borrower payments are received, they are applied to the Association's note payable to the Bank.

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

Capital Resources:

The Association's capital position remains strong, with total members' equity of $100,536,904, $96,696,797, and $91,808,968 at December 31, 2022, 2021, and 2020, respectively.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-weighted assets as defined by the Farm Credit Association (FCA). The permanent capital ratio measures available at-risk capital relative to risk-weighted assets and off-balance-sheet contingencies. The ratio is an indicator of the Association's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The Association's permanent capital ratio at December 31, 2022, 2021, and 2020 was 13.1 percent, 13.1 percent, and 13.8 percent, respectively.

The Association is also required to maintain minimum common equity Tier 1 (CET1), Tier 1 capital, and total capital ratios of 4.5 percent, 6.0 percent, and 8.0 percent, respectively, along with a capital conservation buffer of 2.5 percent applicable to each ratio. The 2.5 percent capital conservation buffer was phased in over a three-year period ending on December 31, 2019. The Association's common equity Tier 1 ratio was 13.0 percent, Tier 1 capital ratio was 13.0 percent, and total capital ratio was 13.9 percent at December 31, 2022. Further, the Association is required to maintain a minimum Tier 1 leverage ratio of 4.0 percent, along with a leverage buffer of 1.0 percent, and a minimum unallocated retained earnings equivalents (UREE) leverage ratio of 1.5 percent. The Association's Tier 1 leverage ratio was 12.8 percent and UREE leverage ratio was 12.4 percent at December 31, 2022.

The CET1 capital ratio is an indicator of the Association's highest quality of capital and consists of unallocated retained earnings, qualifying common cooperative equities (CCEs) that meet the required holding periods, and paid-in capital. The Tier 1 capital ratio is a measure of the Association's quality of capital and financial strength. The total capital ratio is supplementary to the Tier 1 capital ratio, the components of which include qualifying CCEs subject to certain holding periods, third-party capital subject to certain holding periods, and limitations and allowance and reserve for credit losses subject to certain limitations. The Tier 1 leverage ratio is used to measure the amount of leverage an institution has incurred against its capital base, of which at least 1.5 percent must be unallocated retained earnings (URE) and URE equivalents.

Significant Recent Accounting Pronouncements:

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

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

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

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which provides relief from certain requirements under GAAP, was signed into law. Section 4013 of the CARES Act gives entities temporary relief from the accounting and disclosure requirements for TDRs and, if certain criteria are met, these loan modifications may not need to be classified as TDRs. System entities have adopted this relief for qualifying loan modifications. In response to the CARES Act, the Farm Credit Administration issued guidance allowing for temporary relief from accounting and disclosure requirements for TDRs. This TDR guidance applied to modifications made beginning March 1, 2020, and terminated on December 31, 2020.

In March 2020, the FASB issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, 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 contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The Association applied the optional accounting expedients available under the guidance to debt and derivative contract modifications related to LIBOR transition in the fourth quarter of 2020. The impact of adoption was not material to the Association's financial condition or results of operations. In addition, the Association adopted the optional expedient as it relates to loans during the first quarter of 2021 and the impact of adoption was not material to the Association's financial condition or results of operations.

In December 2019, the FASB issued guidance titled "Simplifying the Accounting for Income Taxes." This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition, and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements, and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted and the Association adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the Association's financial condition or results of operations, nor did the guidance impact the presentation of taxes for prior periods in the 2020 year-end financial statements.

In August 2018, the FASB issued guidance titled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance became effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations.

In August 2018, the FASB issued guidance titled "Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance did not impact the Association's financial condition or its results of operations but did impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance titled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance became effective for interim and annual periods beginning after December 15, 2019. Early adoption was permitted and an entity was permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The Association early adopted the removal and modified disclosures during the fourth quarter of 2019. The adoption of this guidance did not impact the Association's financial condition or its results of operations, but did impact the fair value measurements disclosures.

In February 2016, the FASB issued guidance titled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations but did impact lease disclosures. The Association adopted this guidance January 1, 2019, and upon adoption, recorded right of use assets and lease liability in the amount of $374,615.

Regulatory Matters:

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

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

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

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

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

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

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

Relationship With the Bank:

The Association's statutory obligation to borrow only from the Bank is discussed in Note 9 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

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

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis and in Note 9 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank provides computer systems to support the critical operations of all District associations. In addition, each association has operating systems and facility-based systems that are not supported by the Bank. As disclosed in Note 13 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the Bank provides many services that the Association can utilize, such as administrative, marketing, information systems, and accounting services. Additionally, the Bank bills District expenses to the associations, such as the Farm Credit System Insurance Corporation insurance premiums.

Summary:

Over the past 100 years, regardless of the state of the agricultural economy, your Association's board of directors and management, as well as the board of directors and management of the Bank, have been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this Association.

INDEPENDENT AUDITOR'S REPORT

To the Audit Committee and Management
of Heritage Land Bank, ACA

Opinion

We have audited the accompanying financial statements of Heritage Land Bank, ACA and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heritage Land Bank, ACA and its subsidiaries as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Heritage Land Bank, ACA and its subsidiaries (the "Company") and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 generally accepted auditing standards 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 financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the 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 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 Company'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the report of management, report of the audit committee, five-year summary of selected financial data, management's discussion and analysis, and disclosure information and index, but does not include the financial statements and our auditor's report thereon. Our opinion on the 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 financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the 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.

Other Matter

The financial statements of Heritage Land Bank, ACA and its subsidiaries for the year ended December 31, 2020 were audited by another auditor, who expressed an unmodified opinion on those statements on March 12, 2021.

Henry + Peters, P.C.

Tyler, Texas
February 15, 2023

HERITAGE LAND BANK, ACA

CONSOLIDATED BALANCE SHEETS

	December 31,		
	2022	2021	2020
Assets			
Cash	**$ 10,710**	$ 39,628	$ 8,159
Loans	**669,320,338**	660,072,336	611,402,936
Less: allowance for loan losses	**5,505,525**	5,432,897	5,272,187
Net loans	**663,814,813**	654,639,439	606,130,749
Accrued interest receivable	**2,967,626**	2,560,938	2,511,032
Investment in and receivable from the Farm Credit Bank of Texas:			
Capital stock	**11,432,815**	11,039,020	9,791,950
Other	**311,967**	1,372,986	965,091
Other property owned, net	**-**	-	1,077,925
Premises and equipment	**5,903,709**	5,474,306	5,344,715
Other assets	**556,966**	423,448	448,503
Total assets	**$ 684,998,606**	$ 675,549,765	$ 626,278,124
Liabilities			
Note payable to the Farm Credit Bank of Texas	**$ 572,082,121**	$ 568,220,382	$ 525,451,138
Advance conditional payments	**17,402**	1,044	518
Accrued interest payable	**1,206,694**	980,745	919,566
Drafts outstanding	**51,765**	206,161	106,459
Cooperative dividends payable	**6,435,520**	4,587,000	3,750,000
Other liabilities	**4,668,200**	4,857,636	4,241,475
Total liabilities	**584,461,702**	578,852,968	534,469,156
Members' Equity			
Capital stock and participation certificates	**2,664,455**	2,717,525	2,648,380
Unallocated retained earnings	**97,778,405**	94,289,309	89,506,815
Accumulated other comprehensive income (loss)	**94,044**	(310,037)	(346,227)
Total members' equity	**100,536,904**	96,696,797	91,808,968
Total liabilities and members' equity	**$ 684,998,606**	$ 675,549,765	$ 626,278,124

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

HERITAGE LAND BANK, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2022	2021	2020
Interest Income			
Loans	**$ 30,145,443**	$ 27,940,802	$ 27,792,892
Total interest income	**30,145,443**	27,940,802	27,792,892
Interest Expense			
Note payable to the Farm Credit Bank of Texas	**12,788,025**	11,232,733	12,467,211
Advance conditional payments	**66**	13	-
Total interest expense	**12,788,091**	11,232,746	12,467,211
Net interest income	**17,357,352**	16,708,056	15,325,681
Provision for loan losses	**-**	-	-
Net interest income after provision for losses	**17,357,352**	16,708,056	15,325,681
Noninterest Income			
Income from the Farm Credit Bank of Texas:			
Patronage income	**4,261,690**	3,873,740	3,274,968
Loan fees	**138,324**	161,667	311,315
Refunds from Farm Credit System Insurance Corporation	**133,080**	58,567	132,471
Financially related services income	**1,236**	1,440	1,379
Gain (loss) on other property owned, net	**659**	242,227	(40,258)
Gain on sale of premises and equipment, net	**72,837**	-	86,215
Other noninterest income	**69,455**	370,193	131,203
Total noninterest income	**4,677,281**	4,707,834	3,897,293
Noninterest Expenses			
Salaries and employee benefits	**7,400,378**	7,258,551	6,638,752
Directors' expense	**276,368**	223,793	227,724
Purchased services	**372,625**	449,944	436,935
Travel	**352,421**	332,996	264,994
Occupancy and equipment	**1,066,657**	898,305	768,475
Communications	**124,026**	137,242	152,679
Advertising	**478,581**	642,003	576,481
Public and member relations	**566,288**	509,709	379,651
Supervisory and exam expense	**238,527**	214,267	199,256
Insurance Fund premiums	**1,159,290**	908,916	495,171
Other noninterest expense	**334,700**	252,526	209,370
Total noninterest expenses	**12,369,861**	11,828,252	10,349,488
NET INCOME	**9,664,772**	9,587,638	8,873,486
Other comprehensive income:			
Change in postretirement benefit plans	**404,081**	36,190	(222,638)
COMPREHENSIVE INCOME	**$ 10,068,853**	$ 9,623,828	$ 8,650,848

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

HERITAGE LAND BANK, ACA

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2019	$ 2,511,430	$ 84,453,728	$ (123,589)	$ 86,841,569
Comprehensive income	-	8,873,486	(222,638)	8,650,848
Capital stock/participation certificates issued	583,210	-	-	583,210
Capital stock/participation certificates retired	(446,260)	-	-	(446,260)
Cooperative dividends accrued	-	(3,820,399)	-	(3,820,399)
Balance at December 31, 2020	2,648,380	89,506,815	(346,227)	91,808,968
Comprehensive income	-	9,587,638	36,190	9,623,828
Capital stock/participation certificates issued	594,455	-	-	594,455
Capital stock/participation certificates retired	(525,310)	-	-	(525,310)
Cooperative dividends accrued	-	(4,805,144)	-	(4,805,144)
Balance at December 31, 2021	2,717,525	94,289,309	(310,037)	96,696,797
Comprehensive income	-	9,664,772	404,081	10,068,853
Capital stock/participation certificates issued	332,025	-	-	332,025
Capital stock/participation certificates retired	(385,095)	-	-	(385,095)
Cooperative dividends accrued	-	(6,175,676)	-	(6,175,676)
Balance at December 31, 2022	**$ 2,664,455**	**$ 97,778,405**	**$ 94,044**	**$ 100,536,904**

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

HERITAGE LAND BANK, ACA

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2022	2021	2020
Cash flows from operating activities:			
Net income	**$ 9,664,772**	$ 9,587,638	$ 8,873,486
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of other property owned, net	**(659)**	(242,227)	-
Depreciation, amortization, and accretion	**460,439**	532,697	490,254
Gain on sale of premises and equipment, net	**(72,837)**	-	(86,215)
Increase in accrued interest receivable	**(406,688)**	(49,906)	(132,519)
Decrease (increase) in other receivables from the Farm Credit Bank	**1,061,019**	(407,895)	60,398
Increase in other assets	**(124,744)**	(59,279)	(38,393)
Increase (decrease) in accrued interest payable	**225,949**	61,179	(288,928)
Increase in other liabilities	**205,871**	796,685	680,732
Net cash provided by operating activities	**11,013,122**	10,218,892	9,558,815
Cash flows from investing activities:			
Increase in loans, net	**(9,349,677)**	(48,768,190)	(59,646,024)
Cash recoveries of loans previously charged off	**72,628**	100,710	109,597
Proceeds from purchase of investment in the Farm Credit Bank of Texas	**(393,795)**	(1,247,070)	(747,755)
Purchases of premises and equipment	**(970,305)**	(563,927)	(1,721,758)
Proceeds from sales of premises and equipment	**254,975**	429	112,043
Proceeds from sales of other property owned	**659**	1,320,152	-
Net cash used in investing activities	**(10,385,515)**	(49,157,896)	(61,893,897)

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

HERITAGE LAND BANK, ACA

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2022	2021	2020
Cash flows from financing activities:			
Net draws on note payable to the Farm Credit Bank of Texas	**3,861,739**	42,769,244	56,299,188
(Decrease) increase in drafts outstanding	**(154,396)**	99,702	(475,832)
Increase in advance conditional payments	**16,358**	526	867
Issuance of capital stock and participation certificates	**332,025**	594,455	583,210
Retirement of capital stock and participation certificates	**(385,095)**	(525,310)	(446,260)
Cooperative dividends paid	**(4,327,156)**	(3,968,144)	(3,834,399)
Net cash (used in) provided by financing activities	**(656,525)**	38,970,473	52,126,774
Net (decrease) increase in cash	**(28,918)**	31,469	(208,308)
Cash at the beginning of the year	**39,628**	8,159	216,467
Cash at the end of the year	**$ 10,710**	$ 39,628	$ 8,159
Supplemental schedule of noncash investing and financing activities:			
Cooperative dividends accrued	**6,175,676**	4,805,144	3,820,399
Transfer of allowance for loan losses from (into) reserve for unfunded commitments	**-**	60,000	(84,000)
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	**$ 12,788,025**	$ 11,262,554	$ 12,756,139

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

HERITAGE LAND BANK, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND OPERATIONS:

A. Organization: Heritage Land Bank, ACA, including its wholly owned subsidiaries, Heritage Production Credit, PCA and Heritage Land Bank, FLCA (collectively called "the Association"), is a member-owned cooperative that provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Anderson, Angelina, Cherokee, Collin, Dallas, Henderson, Hunt, Nacogdoches, Panola, Rockwall, Rusk, Sabine, San Augustine, Shelby, Smith, and Tarrant in the state of Texas

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act). At December 31, 2022, the System consisted of three Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation), and various service and other organizations.

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

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

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

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

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

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

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation and Consolidation

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

Use of Estimates

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

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

A. Recently Issued or Adopted Accounting Pronouncements:

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

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

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

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which provides relief from certain requirements under GAAP, was signed into law. Section 4013 of the CARES Act gives entities temporary relief from the accounting and disclosure requirements for TDRs and, if certain criteria are met, these loan modifications may not need to be classified as TDRs. System entities have adopted this relief for qualifying loan modifications. In response to the CARES Act, the Farm Credit Administration issued guidance allowing for temporary relief from accounting and disclosure requirements for TDRs. This TDR guidance applied to modifications made beginning March 1, 2020, and terminated on December 31, 2020.

In March 2020, the FASB issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, 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 contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The Association applied the optional accounting expedients available under the guidance to debt and derivative contract modifications related to LIBOR transition in the fourth quarter of 2020. The impact of adoption was not material to the Association's financial condition or results of operations. In addition, the Association adopted the optional expedient as it relates to loans during the first quarter of 2021 and the impact of adoption was not material to the Association's financial condition or results of operations.

In December 2019, the FASB issued guidance entitled "Simplifying the Accounting for Income Taxes." This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition, and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements, and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted and the Association adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the Association's financial condition or results of operations, nor did the guidance impact the presentation of taxes for prior periods in the 2020 year-end financial statements.

In August 2018, the FASB issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance became effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance did not impact the Association's financial condition or its results of operations, but did impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance became effective for interim and annual periods beginning after December 15, 2019. Early adoption was permitted and an entity was permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The Association early adopted the removal and modified disclosures during the fourth quarter of 2019. The adoption of this guidance did not impact the Association's financial condition or its results of operations, but did impact the fair value measurements disclosures.

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations but did impact lease disclosures. The Association adopted this guidance January 1, 2019, and upon adoption, recorded right of use assets and lease liability in the amount of $374,615.

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

C. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and net deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Authoritative accounting guidance requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield.

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

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

Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection), circumstances indicate that collection of principal and/or interest is in doubt or legal action, including foreclosure or other forms of collateral conveyance, has been initiated to collect the outstanding principal and interest. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years). Loans are charged off at the time they are determined to be uncollectible.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The structure of the district's DB plan is characterized as multi-employer, since neither the assets, liabilities nor costs of the plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. The Association recognized pension costs for the DC plan of $251,675, $239,262, and $227,251 for the years ended December 31, 2022, 2021, and 2020 respectively. For the DB plan, the Association recognized pension costs of $117,110, $175,036, and $0 for the years ended December 31, 2022, 2021, and 2020, respectively.

The Association also participates in the Farm Credit Benefits Alliance 401(k) Plan, which requires the associations to match 100 percent of employee contributions up to 3.0 percent of eligible earnings and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The Association's contributions to the 401(k) plan were $185,635, $177,898, and $160,612 for the years ended December 31, 2022, 2021, and 2020, respectively.

In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities on the consolidated balance sheet. The other postretirement benefits program is closed to new participants. Eligibility applies to those hired prior to January 1, 2005.

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

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

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

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

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

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

The fair value disclosures are presented in Note 14, "Fair Value Measurements."

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

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

	2022		2021		2020	
Loan Type	**Amount**	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 618,100,967**	**92.4%**	$611,698,531	92.7%	$550,978,356	90.1%
Rural residential real estate	**26,408,451**	**4.0%**	30,900,995	4.7%	32,456,787	5.3%
Production and intermediate term	**12,376,486**	**1.8%**	12,038,644	1.8%	17,123,455	2.8%
Agribusiness:						
Processing and marketing	**10,974,072**	**1.6%**	4,382,896	0.7%	9,913,106	1.6%
Farm-related business	**1,171,210**	**0.2%**	747,277	0.1%	612,590	0.1%
Lease receivables	**289,152**	**0.0%**	303,993	0.0%	318,642	0.1%
Total	**$ 669,320,338**	**100.0%**	$660,072,336	100.0%	$611,402,936	100.0%

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

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$13,276,317	$30,588,493	$ -	$ -	$13,276,317	$30,588,493
Agribusiness	6,152,900	1,284,670			6,152,900	1,284,670
Production and intermediate term	105,777	-	-	-	105,777	-
Total	$19,534,994	$31,873,163	$ -	$ -	$19,534,994	$31,873,163

Geographic Distribution

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

County	**2022**	2021	2020
Collin	**11.1%**	10.1%	12.2%
Anderson	**10.4%**	11.3%	8.7%
Hunt	**8.9%**	9.4%	10.0%
Cherokee	**8.7%**	8.3%	9.9%
Smith	**5.5%**	5.7%	6.5%
Henderson	**4.9%**	5.1%	5.8%
Fannin	**3.4%**	3.4%	3.4%
Grayson	**3.3%**	3.4%	3.0%
Kaufman	**2.4%**	2.2%	1.8%
Rusk	**2.4%**	2.3%	1.9%
Angelina	**2.1%**	2.3%	2.3%
Nacogdoches	**1.8%**	1.9%	2.2%
Van Zandt	**1.6%**	1.7%	1.4%
Hopkins	**1.6%**	1.4%	1.2%
Parker	**1.6%**	1.7%	0.8%
Palo Pinto	**1.5%**	1.6%	0.6%
Cooke	**1.4%**	1.2%	1.0%
Denton	**1.4%**	1.1%	0.8%
San Augustine	**1.4%**	1.2%	0.8%
Shelby	**1.2%**	1.0%	1.0%
Panola	**1.1%**	1.0%	0.8%
Wood	**1.1%**	1.0%	0.8%
Rockwall	**1.1%**	1.3%	1.7%
Lamar	**1.0%**	1.0%	0.6%
Other Counties	**16.3%**	16.9%	18.9%
Other States	**2.8%**	2.5%	1.9%
Totals	**100.0%**	100.0%	100.0%

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized, and the Association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

	2022		2021		2020	
Operation/Commodity	**Amount**	**%**	Amount	%	Amount	%
Livestock, except dairy and poultry	**$ 235,178,179**	**35.1%**	$ 233,237,861	35.3%	$ 201,793,457	33.0%
Field crops except cash grains	**103,809,601**	**15.5%**	105,772,205	16.0%	103,993,582	17.0%
Timber	**98,536,814**	**14.7%**	98,071,106	14.9%	80,041,938	13.1%
General farms, primarily crops	**61,091,510**	**9.1%**	50,986,286	7.7%	33,925,126	5.5%
Hunting, trapping and game propagation	**55,893,405**	**8.4%**	53,584,282	8.1%	64,225,999	10.5%
Rural home loans	**53,923,435**	**8.1%**	57,701,210	8.7%	56,312,330	9.2%
Poultry and eggs	**17,742,572**	**2.7%**	18,137,341	2.8%	15,083,171	2.5%
Animal specialties	**10,869,106**	**1.6%**	12,177,216	1.8%	14,507,363	2.4%
Cash Grains	**8,054,311**	**1.2%**	6,281,109	1.0%	3,817,035	0.6%
Lumber and wood products, except furniture	**6,152,900**	**0.9%**	6,373,964	1.0%	14,974,994	2.4%
Agricultural services	**3,381,779**	**0.5%**	7,597,358	1.2%	13,056,952	2.1%
Other	**14,686,726**	**2.2%**	10,152,398	1.5%	9,670,989	1.7%
Total	**$ 669,320,338**	**100.0%**	$ 660,072,336	100.0%	$ 611,402,936	100.0%

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

To mitigate the risk of loan losses, the Association has obtained loan guarantees in the form of standby commitments to purchase qualifying loans from Farmer Mac through an arrangement with the Bank. The agreements, which will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of defaults (typically four months past due), subject to certain conditions. At December 31, 2022, there were no loans guaranteed by these commitments. At December 31, 2021 and 2020, loans totaling $945,437, and $1,829,819, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $4,270, $9,033, and $11,695 in 2022, 2021, and 2020, respectively, and are included in "other noninterest expense."

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

The following table presents information relating to impaired loans:

	December 31,		
	2022	2021	2020
Nonaccrual loans:			
Current as to principal and interest	**$ 5,730**	$ 125,625	$ 457,953
Past due	**103,006**	69,103	53,515
Total nonaccrual loans	**108,736**	194,728	511,468
Impaired accrual loans:			
Restructured accrual loans	**69,313**	77,800	270,600
Total impaired accrual loans	**69,313**	77,800	270,600
Total impaired loans	**$ 178,049**	$ 272,528	$ 782,068

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

	December 31, 2022	December 31, 2021	December 31, 2020
Nonaccrual loans:			
Real estate mortgage	**$ 103,006**	$ 158,892	$ 440,182
Rural residential real estate	**5,730**	35,836	29,517
Production and intermediate term	**-**	-	41,769
Total nonaccrual loans	**108,736**	194,728	511,468
Accruing restructured loans:			
Real estate mortgage	**69,313**	77,800	270,600
Total accruing restructured loans	**69,313**	77,800	270,600
Total nonperforming loans	**178,049**	272,528	782,068
Other property owned	**-**	-	1,077,925
Total nonperforming assets	**$ 178,049**	$ 272,528	$ 1,859,993

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

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

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

	2022	2021	2020
Real estate mortgage			
Acceptable	**99.8** %	99.3 %	98.6 %
OAEM	**0.1**	0.5	1.1
Substandard/doubtful	**0.1**	0.2	0.3
	100.0	100.0	100.0
Rural residential real estate			
Acceptable	**99.6**	99.9	97.5
OAEM	**0.4**	-	2.4
Substandard/doubtful	**-**	0.1	0.1
	100.0	100.0	100.0
Production and intermediate term			
Acceptable	**99.6**	98.5	98.6
OAEM	**-**	0.9	0.7
Substandard/doubtful	**0.4**	0.6	0.7
	100.0	100.0	100.0
Processing and marketing			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Farm-related business			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Lease receivables			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Total Loans			
Acceptable	**99.8**	99.3	98.6
OAEM	**0.1**	0.5	1.1
Substandard/doubtful	**0.1**	0.2	0.3
	100.0 %	100.0 %	100.0 %

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

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

December 31, 2022:	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or less than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 325,094**	**$ 103,006**	**$ 428,100**	**$ 620,342,661**	**$ 620,770,761**	**$ -**
Rural residential real estate	**95,553**	**-**	**95,553**	**26,379,059**	**26,474,612**	**-**
Production and intermediate term	**-**	**-**	**-**	**12,566,913**	**12,566,913**	**-**
Processing and marketing	**-**	**-**	**-**	**10,995,043**	**10,995,043**	**-**
Farm-related business	**-**	**-**	**-**	**1,190,523**	**1,190,523**	**-**
Lease receivables	**-**	**-**	**-**	**290,112**	**290,112**	**-**
Total	**$ 420,647**	**$ 103,006**	**$ 523,653**	**$ 671,764,311**	**$ 672,287,964**	**$ -**

December 31, 2021:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 866,388	$ 18,035	$ 884,423	$ 613,123,833	$ 614,008,256	$ -
Rural residential real estate	174,675	-	174,675	30,799,134	30,973,809	-
Production and intermediate term	-	-	-	12,198,116	12,198,116	-
Processing and marketing	-	-	-	4,392,238	4,392,238	-
Farm-related business	-	-	-	755,930	755,930	-
Lease receivables	-	-	-	304,925	304,925	-
Total	$ 1,041,063	$ 18,035	$ 1,059,098	$ 661,574,176	$ 662,633,274	$ -

December 31, 2020:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 3,516,804	$ 25,435	$ 3,542,239	$ 549,641,200	$ 553,183,439	$ -
Rural residential real estate	22,254	-	22,254	32,510,084	32,532,338	-
Production and intermediate term	49,390	-	49,390	17,280,585	17,329,975	-
Processing and marketing	-	-	-	9,934,840	9,934,840	-
Farm-related business	-	-	-	614,186	614,186	-
Lease receivables	-	-	-	319,190	319,190	-
Total	$ 3,588,448	$ 25,435	$ 3,613,883	$ 610,300,085	$ 613,913,968	$ -

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

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

As of December 31, 2022, the total recorded investment of troubled debt restructured loans was $82,001 including $12,688 classified as nonaccrual and $69,313 classified as accrual. There was no specific allowance for TDR loan losses as of December 31, 2022. As of December 31, 2022, there were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring.

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

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

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

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

	Loans Modified as TDRs		
	December 31, 2022	December 31, 2021	December 31, 2020
Troubled debt restructurings:			
Real estate mortgage	**$ 82,001**	$ 95,835	$ 296,034
Total	**$ 82,001**	$ 95,835	$ 296,034

	TDRs in Nonaccrual Status*		
	December 31, 2022	December 31, 2021	December 31, 2020
Troubled debt restructurings:			
Real estate mortgage	**$ 12,688**	$ 18,035	$ 25,435
Total	**$ 12,688**	$ 18,035	$ 25,435

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

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/2022	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ -	$ -	$ -	$ -	$ -
Production and intermediate term	-	-	-	-	-
Rural residential real estate	5,730	5,730	5,944	6,535	-
Total	$ 5,730	$ 5,730	$ 5,944	$ 6,535	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 172,319	$ 172,319	$ -	$ 135,901	$ 4,422
Production and intermediate term	-	-	-	-	-
Rural residential real estate	-	-	-	-	-
Total	$ 172,319	$ 172,319	$ -	$ 135,901	$ 4,422
Total impaired loans:					
Real estate mortgage	$ 172,319	$ 172,319	$ -	$ 135,901	$ 4,422
Production and intermediate term	-	-	-	-	-
Rural residential real estate	5,730	5,730	5,944	6,535	-
Total	$ 178,049	$ 178,049	$ 5,944	$ 142,436	$ 4,422

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

	Recorded Investment at 12/31/2021	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ -	$ -	$ -	$ -	$ -
Production and intermediate term	-	-	-	-	-
Rural residential real estate	6,497	6,497	6,944	4,193	146
Total	$ 6,497	$ 6,497	$ 6,944	$ 4,193	$ 146
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 236,692	$ 236,692	$ -	$ 261,613	$ 3,899
Production and intermediate term	-	-	-	30,043	2,196
Rural residential real estate	29,339	29,339	-	29,137	-
Total	$ 266,031	$ 266,031	$ -	$ 320,793	$ 6,095
Total impaired loans:					
Real estate mortgage	$ 236,692	$ 236,692	$ -	$ 261,613	$ 3,899
Production and intermediate term	-	-	-	30,043	2,196
Rural residential real estate	35,836	35,836	6,944	33,330	146
Total	$ 272,528	$ 272,528	$ 6,944	$ 324,986	$ 6,241

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

	Recorded Investment at 12/31/2020	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ -	$ -	$ -	$ -	$ -
Production and intermediate term	-	-	-	-	-
Rural residential real estate	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 710,782	$ 709,669	$ -	$ 537,177	$ 20,218
Production and intermediate term	41,769	42,033	-	26,443	-
Rural residential real estate	29,517	29,517	-	20,259	-
Total	$ 782,068	$ 781,219	$ -	$ 583,879	$ 20,218
Total impaired loans:					
Real estate mortgage	$ 710,782	$ 709,669	$ -	$ 537,177	$ 20,218
Production and intermediate term	41,769	42,033	-	26,443	-
Rural residential real estate	29,517	29,517	-	20,259	-
Total	$ 782,068	$ 781,219	$ -	$ 583,879	$ 20,218

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

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

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

	2022	2021	2020
Interest income which would have been recognized under the original terms	**$ 9,435**	$ 27,095	$ 44,438
Less: interest income recognized	**(4,422)**	(6,241)	(20,218)
Foregone interest income	**$ 5,013**	$ 20,854	$ 24,220

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Rural Residential Real Estate	Lease Receivable	Total
Allowance for Credit Losses:							
Balance at December 31, 2021	**$ 2,453,067**	**$ 1,392,078**	**$ 1,569,584**	**$ -**	**$ 18,168**	**$ -**	**$ 5,432,897**
Charge-offs	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Recoveries	**24,000**	**44,735**	**3,893**	**-**	**-**	**-**	**72,628**
Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at December 31, 2022	**$ 2,477,067**	**$ 1,436,813**	**$ 1,573,477**	**$ -**	**$ 18,168**	**$ -**	**$ 5,505,525**
Ending Balance: individually evaluated for impairment	**$ -**	**$ -**	**$ -**	**$ -**	**$ 5,944**	**$ -**	**$ 5,944**
Ending Balance: collectively evaluated for impairment	**$ 2,477,067**	**$ 1,436,813**	**$ 1,573,477**	**$ -**	**$ 12,224**	**$ -**	**$ 5,499,581**
Recorded Investment in Loans Outstanding:							
Ending Balance at December 31, 2022	**$620,770,761**	**$ 12,566,913**	**$ 12,185,566**	**$ -**	**$ 26,474,612**	**$ 290,112**	**$672,287,964**
Ending balance for loans individually evaluated for impairment	**$ 172,319**	**$ -**	**$ -**	**$ -**	**$ 5,730**	**$ -**	**$ 178,049**
Ending balance for loans collectively evaluated for impairment	**$620,598,442**	**$ 12,566,913**	**$ 12,185,566**	**$ -**	**$ 26,468,882**	**$ 290,112**	**$672,109,915**

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Rural Residential Real Estate	Lease Receivable	Total
Allowance for Credit Losses:							
Balance at December 31, 2020	$ 2,429,067	$ 1,315,368	$ 1,509,584	$ -	$ 18,168	$ -	$ 5,272,187
Charge-offs	-	-	-	-	-	-	-
Recoveries	24,000	76,710	-	-	-	-	100,710
Other	-	-	60,000	-	-	-	60,000
Balance at December 31, 2021	$ 2,453,067	$ 1,392,078	$ 1,569,584	$ -	$ 18,168	$ -	$ 5,432,897
Ending Balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 6,944	$ -	$ 6,944
Ending Balance: collectively evaluated for impairment	$ 2,453,067	$ 1,392,078	$ 1,569,584	$ -	$ 11,224	$ -	$ 5,425,953
Recorded Investment in Loans Outstanding:							
Ending Balance at December 31, 2021	$614,008,256	$ 12,198,116	$ 5,148,168	$ -	$ 30,973,809	$ 304,925	$662,633,274
Ending balance for loans individually evaluated for impairment	$ 236,692	$ -	$ -	$ -	$ 35,836	$ -	$ 272,528
Ending balance for loans collectively evaluated for impairment	$613,771,564	$ 12,198,116	$ 5,148,168	$ -	$ 30,937,973	$ 304,925	$662,360,746

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Rural Residential Real Estate	Lease Receivable	Total
Allowance for Credit Losses:							
Balance at December 31, 2019	$ 2,429,067	$ 1,200,931	$ 1,593,584	$ 4,840	$ 18,168	$ -	$ 5,246,590
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	109,597	-	-	-	-	109,597
Other	-	4,840	(84,000)	(4,840)	-	-	(84,000)
Balance at December 31, 2020	$ 2,429,067	$ 1,315,368	$ 1,509,584	$ -	$ 18,168	$ -	$ 5,272,187
Ending Balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending Balance: collectively evaluated for impairment	$ 2,429,067	$ 1,315,368	$ 1,509,584	$ -	$ 18,168	$ -	$ 5,272,187
Recorded Investment in Loans Outstanding:							
Ending Balance at December 31, 2020	$553,183,439	$ 17,329,975	$ 10,549,026	$ -	$ 32,532,338	$ 319,190	$613,913,968
Ending balance for loans individually evaluated for impairment	$ -	$ 41,768	$ 710,782	$ -	$ 29,517	$ -	$ 782,067
Ending balance for loans collectively evaluated for impairment	$553,183,439	$ 17,288,207	$ 9,838,244	$ -	$ 32,502,821	$ 319,190	$613,131,901

NOTE 4 — LEASES

The components of lease expense were as follows:

Classification	2022	2021	2020
Operating lease cost	**$ 39,808**	$ 71,056	$ 151,789
Net lease cost	**$ 39,808**	$ 71,056	$ 151,789

Other information related to leases was as follows:

	2022	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows for operating leases	**$ 39,808**	$ 71,056	$ 151,789

Lease term and discount rate are as follows:

	2022	2021	2020
Weighted average remaining lease term in years			
Operating leases	**2.16**	1.52	1.77
Weighted average discount rate			
Operating leases	**2.84%**	2.84%	2.84%

The Association leases office space in Athens and Nacogdoches. These leases have remaining terms ranging from one to three years. Optional renewal periods have not been included in the related lease calculations. Lease expense was $39,808, $71,056, and $151,789 for 2022, 2021, and 2020, respectively.

Future minimum lease payments under non-cancellable leases as of December 31, 2022, were as follows:

	Operating Leases
2023	$ 32,519
2024	16,207
2025	10,805
2026	-
Thereafter	-
Total lease payments	$ 59,531

The right-of-use asset and lease liability associated with the Association's leases each totaled $58,340, $49,566, and $133,900 as of December 31, 2022, 2021, and 2020, respectively, and were included in other assets and other liabilities within the consolidated balance sheets.

NOTE 5 — INVESTMENT IN THE FARM CREDIT BANK OF TEXAS

The investment in the Farm Credit Bank of Texas is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying consolidated balance sheet. Estimating the fair value of the Association's investment in the Farm Credit Bank of Texas is not practicable because the stock is not traded. The Association owned 2.4 percent, 2.7 percent, and 2.7 percent of the issued stock of the Bank as of December 31, 2022, 2021, and 2020, respectively. As of those dates, the Bank's assets totaled $36.0 billion, $33.1 billion, and $28.2 billion, respectively, and members' equity totaled $1.6 billion, $2.0 billion, and $2.0 billion, respectively. The Bank's earnings were $269.9 million, $254.6 million, and $251.1 million during 2022, 2021, and 2020, respectively.

NOTE 6 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2022	2021	2020
Building and improvements	**$ 5,738,275**	$ 5,551,128	$ 5,419,718
Land and improvements	**1,077,068**	1,059,768	824,768
Automobiles	**937,576**	880,475	753,067
Construction in progress	**395,185**	2,600	-
Furniture and equipment	**326,292**	321,095	337,237
Computer equipment and software	**302,234**	268,749	302,297
	8,776,630	8,083,815	7,637,087
Accumulated depreciation	**(2,872,921)**	(2,609,509)	(2,292,372)
Total	**$ 5,903,709**	$ 5,474,306	$ 5,344,715

NOTE 7 — OTHER PROPERTY OWNED, NET:

Net gain (loss) on other property owned, net consists of the following for the years ended December 31:

	2022	2021	2020
Gain on sale, net	**$ 1,060**	$ 248,642	$ -
Operating expense, net	**(401)**	(6,415)	(40,258)
Net gain (loss) on other property owned	**$ 659**	$ 242,227	$ (40,258)

As of December 31, 2022, the Association did not hold any acquired property.

NOTE 8 — OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	2022	2021	2020
Prepaid captive insurance premiums	**$ 272,604**	$ 247,641	$ 238,298
Prepaid expenses	**171,981**	70,825	28,096
Other accounts receivable, net	**(12,810)**	(10,009)	(7,851)
Other, net	**125,191**	114,991	189,960
Total	**$ 556,966**	$ 423,448	$ 448,503

Other liabilities comprised the following at December 31:

	2022	2021	2020
Accumulated postretirement benefit obligation	**$ 1,311,660**	$ 1,651,360	$ 1,615,166
Other accrued expenses, net	**2,016,008**	2,117,863	1,789,344
FCS premium payable	**1,074,624**	837,214	441,686
Other, net	**265,908**	251,199	395,279
Total	**$ 4,668,200**	$ 4,857,636	$ 4,241,475

NOTE 9 — NOTE PAYABLE TO THE BANK:

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

The total amount and the weighted average interest rate of the Association's direct loan from the Bank at December 31, 2022, 2021, and 2020, was $572,082,121 at 2.52 percent, $568,220,382 at 2.00 percent, and $525,451,138 at 2.02 percent, respectively.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2022, 2021, and 2020, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2022, was $670,290,814, as defined by the GFA.

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

Other than the Association's funding relationship with the Bank, the Association has no other uninsured or insured debt.

NOTE 10 — MEMBERS' EQUITY:

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

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

In accordance with the Act and the Association's capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. The investment in Class B capital stock (for farm loans) or participation certificates (for rural home and farm-related business loans) is equal to 2.0 percent of the loan amount, up to a maximum amount of $1,000 per individual customer or entity versus the previous requirement of 2.0 percent of the holder's aggregate loan balance outstanding, or a maximum of $1,000 per individual loan.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually by adding the aggregate par value of the capital stock or participation certificates to the principal amount of the related loan obligation. The capital stock or participation certificates are subject to a first lien by the Association. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding capital stock or participation certificates.

If needed to meet regulatory capital adequacy requirements, the board of directors of the Association may increase the percentage of stock requirement for each borrower up to a maximum of 10 percent of the loan amount.

Each owner of Class B capital stock is entitled to a single vote, while participation certificates provide no voting rights to their owners.

Within two years of repayment of a loan, the Association capital bylaws require the conversion of any borrower's outstanding Class B to Class C stock. Class C stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of Class C shares is made solely at the discretion of the Association's board of directors. At December 31, 2022, 2021, and 2020, the Association had no Class C stock.

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

Cooperative dividends are paid on the capital stock of the Association, as the board of directors may determine by resolution, subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. The following table provides information on the cooperative dividends declared in 2022, 2021, and 2020, respectively:

Consolidated Net Earnings Period Ended December 31:	Date Declared	Date to be Paid	Declared Cooperative Dividend
2022	**January 2023**	**March 2023**	**$ 6,435,520**
		Total 2022 Period	**$ 6,435,520**
2021	January 2022	March 2022	$ 4,319,303
		Total 2021 Period	$ 4,319,303
2020	January 2021	March 2021	$ 3,969,854
		Total 2020 Period	$ 3,969,854

As of December 31, 2022, the Association is not prohibited from retiring stock or distributing earnings; furthermore, neither the board nor senior management knows of any such prohibitions that may apply during the subsequent fiscal year.

The Farm Credit Administration sets minimum regulatory capital requirements for banks and associations. The following sets forth the regulatory capital ratio requirements and ratios at December 31, 2022:

Risk-weighted:	Regulatory Minimums	Regulatory Minimums with Buffer	As of December 31, 2022
Common equity tier 1 ratio	4.50%	7.00%	13.03%
Tier 1 capital ratio	6.00%	8.50%	13.03%
Total capital ratio	8.00%	10.50%	13.88%
Permanent capital ratio	7.00%	7.00%	13.14%
Non-risk-weighted:			
Tier 1 leverage ratio	4.00%	5.00%	12.77%
UREE leverage ratio	1.50%	1.50%	12.37%

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

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

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

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

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of seven years, allocated equities held for a minimum of seven years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-weighted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-weighted assets.
- Total capital is tier 1 capital plus other required borrower stock held for a minimum of five years, allocated equities held for a minimum of five years, subordinated debt and limited-life preferred stock greater than five years to maturity at

issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-weighted assets.

- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-weighted assets.
- Tier 1 leverage ratio is tier 1 capital (at least 1.5 percent must be URE and URE equivalents), including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

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

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

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 93,972,556	$ 93,972,556	$ 93,972,556	$ 93,972,556
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	2,668,063	2,668,063	2,668,063	2,668,063
Allowance for loan losses and reserve for credit losses subject to certain limitations*	-	-	5,588,853	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(11,043,396)	(11,043,396)	(11,043,396)	(11,043,396)
	$ 85,597,223	$ 85,597,223	$ 91,186,076	$ 85,597,223
Denominator:				
Risk-adjusted assets excluding allowance	$ 668,058,095	$ 668,058,095	$ 668,058,095	$ 668,058,095
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(11,043,396)	(11,043,396)	(11,043,396)	(11,043,396)
Allowance for loan losses	-	-	-	(5,488,853)
	$ 657,014,699	$ 657,014,699	$ 657,014,699	$ 651,525,846

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

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

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	$ 93,972,556	$ 93,972,556
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	2,668,063	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(11,043,396)	(11,043,396)
	$ 85,597,223	$ 82,929,160
Denominator:		
Total Assets	$ 686,137,453	$ 686,137,453
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(15,810,764)	(15,810,764)
	$ 670,326,689	$ 670,326,689

An adequate level of capital is necessary for the Association to offer competitive loan products, generate earnings, withstand economic duress, and sustain growth. It is the intent of the Association board to manage the Association's capital position to support its business objectives while recognizing that the accumulation of excess capital is a direct cost to shareholders. Therefore, the establishment of the Association's capital requirement must reach a balance between the amount of capital necessary to cover business risks and the level that creates long-term value to the shareholder.

The Association has established a capital planning process that provides an objective basis for determining its capital requirement. This planning process incorporates the income, expense, capital, and business goal projections for the Association and the financial performance standards of the Bank. The Association management, the board, and the Bank monitor the Association's capital ratios, asset quality, and earnings in order to gauge safety and soundness.

The board has established minimum capital goals that achieve regulatory minimum plus the buffer in Total Regulatory Capital (TRC), Tier 1 Capital (T1), Common Equity Tier 1 Capital (CET1), Unallocated Retained Earnings (URE) and URE Equivalents. Current projections support the fact that the Association will be able to maintain new loan volume, support existing loan portfolio risk and continue to maintain capital levels. However, in the event that capital for the Association falls below the minimum goal, the board and management have evaluated ways to increase its capital position and would employ one or more of these alternatives to increase the capital position to achieve the minimum levels established by the board.

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

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

	2022	2021	2020
Class B stock	**482,646**	486,229	469,274
Participation certificates	**50,245**	57,276	60,402
Total	**532,891**	543,505	529,676

An additional component of equity is accumulated other comprehensive income (loss), which is reported for the years ended December 31 as follows:

	Accumulated Other Comprehensive Income (Loss)		
	2022	2021	2020
Nonpension postretirement benefits	**$ 94,044**	$ (310,037)	$ (346,227)

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

	2022	2021	2020
Accumulated other comprehensive loss at January 1	**$ (310,037)**	$ (346,227)	$ (123,589)
Actuarial gains (losses)	**388,091**	16,844	(219,688)
Amortization of prior service credit included in salaries and employee benefits	**(6,416)**	(6,416)	(6,416)
Amortization of actuarial loss included in other noninterest expense	**22,406**	25,762	3,466
Other comprehensive income (loss)	**404,081**	36,190	(222,638)
Accumulated other comprehensive income (loss) at December 31	**$ 94,044**	$ (310,037)	$ (346,227)

NOTE 11 — INCOME TAXES:

There was no provision for income taxes for 2022, 2021, and 2020. The provision for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows for the years ended December 31:

	2022	2021	2020
Federal tax at statutory rate	**$ 2,032,298**	$ 2,014,731	$ 1,864,325
Effect of nontaxable FLCA subsidiary	**(2,424,889)**	(2,182,120)	(2,099,731)
Change in valuation allowance	**392,591**	156,607	246,188
Other	**-**	10,782	(10,782)
Provision for income taxes	**$ -**	$ -	$ -

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

	2022	2021	2020
Deferred Tax Assets			
Allowance for loan losses	**$ 722,155**	$ 712,760	$ 698,751
Loss carryforwards	**6,663,557**	6,280,361	6,137,763
Gross deferred tax assets	**7,385,712**	6,993,121	6,836,514
Deferred tax asset valuation allowance	**(7,385,712)**	(6,993,121)	(6,836,514)
Deferred Tax Liabilities			
Other	**-**	-	-
Gross deferred tax liabilities	**-**	-	-
Net deferred tax asset (liability)	**$ -**	$ -	$ -

The calculation of tax assets and liabilities involves various management estimates and assumptions as to the future taxable earnings.

The Association carried a deferred tax asset of $7,385,712, $6,993,121, and $6,836,514 as of December 31, 2022, 2021, and 2020, respectively. This asset results from the establishment of an allowance for loan losses on the short-term loan portfolio, and a net operating loss carryforward for Heritage Production Credit, PCA as shown above. The Association has recorded a full valuation allowance against the gross deferred tax asset for the years ending December 31, 2022, 2021, and 2020 based on management's estimate that it is more likely than not (over 50 percent probability) that the deferred tax asset will not be realized. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly. The Association's net operating loss carryforward at December 31, 2022, approximates $31,731,225. Of this amount, $25,550,135 will begin to expire in 2024 and $6,181,090 has an indefinite carryforward period.

NOTE 12 — EMPLOYEE BENEFIT PLANS:

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

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

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

There were no Supplemental 401(k) plans to active employees during 2022, 2021, and 2020.

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

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

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

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

	2022	2021	2020
Funded status of plan	**70.9** %	70.5 %	62.6 %
Association's contribution	**$ 117,110**	$ 175,036	$ -
Percentage of Association's contribution to total contributions	**1.1** %	1.2 %	0.0 %

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

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. The other postretirement benefits program is closed to new participants. Eligibility applies to those hired prior to January 1, 2005.

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

Disclosure Information Related to Retirement Benefits	2022	2021	2020
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	**$ 1,651,360**	$ 1,618,224	$ 1,368,337
Service cost	**35,226**	38,917	22,835
Interest cost	**51,282**	44,707	46,461
Plan participants' contributions	**3,505**	3,319	3,390
Actuarial (gain) loss	**(388,091)**	(16,844)	219,688
Benefits paid	**(39,067)**	(36,963)	(42,487)
Accumulated postretirement benefit obligation, end of year	**$ 1,314,215**	$ 1,651,360	$ 1,618,224
Change in Plan Assets			
Plan assets at fair value, beginning of year	**$ -**	$ -	$ -
Company contributions	**35,562**	33,644	39,097
Plan participants' contributions	**3,505**	3,319	3,390
Benefits paid	**(39,067)**	(36,963)	(42,487)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Funded status of the plan	**$ (1,314,215)**	$ (1,651,360)	$ (1,618,224)
Amounts Recognized on the Balance Sheets			
Other liabilities	**$ (1,314,215)**	$ (1,651,360)	$ (1,618,224)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial (gain) loss	**$ (68,127)**	$ 342,370	$ 384,976
Prior service credit	**(25,917)**	(32,333)	(38,749)
Total	**$ (94,044)**	$ 310,037	$ 346,227
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	**12/31/2022**	12/31/2021	12/31/2020
Discount rate	**5.20%**	3.15%	2.80%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**7.20%/7.70%**	6.80%/6.00%	6.60%/6.20%
Ultimate health care cost trend rate	**4.50%**	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	**2031/2031**	2030/2030	2028/2029

Total Cost	**2022**	2021	2020
Service cost	**$ 35,226**	$ 38,917	$ 22,835
Interest cost	**51,282**	44,707	46,461
Amortization of:			
Unrecognized prior service credit	**(6,416)**	(6,416)	(6,416)
Unrecognized net loss	**22,406**	25,762	3,466
Net postretirement benefit cost	**$ 102,498**	$ 102,970	$ 66,346
Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income			
Net actuarial (gain) loss	**$ (388,091)**	$ (16,844)	$ 219,688
Amortization of net actuarial loss	**(22,406)**	(25,762)	(3,466)
Amortization of prior service credit	**6,416**	6,416	6,416
Total recognized in other comprehensive income	**$ (404,081)**	$ (36,190)	$ 222,638
AOCI Amounts Expected to be Amortized Into Expense in 2023			
Unrecognized prior service credit	**$ (6,416)**	$ (6,416)	$ (6,416)
Unrecognized net loss	**-**	22,406	25,762
Total	**$ (6,416)**	$ 15,990	$ 19,346
Weighted-Average Assumptions Used to Determine Benefit Cost			
Measurement date	**12/31/2021**	12/31/2020	12/31/2019
Discount rate	**3.15%**	2.80%	3.45%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**6.80%/6.00%**	6.60%/6.20%	6.90%/6.40%
Ultimate health care cost trend rate	**4.50%**	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	**2030/2030**	2029	2028/2029

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)	
Fiscal 2023	**$ 44,009**
Fiscal 2024	**47,471**
Fiscal 2025	**54,314**
Fiscal 2026	**61,528**
Fiscal 2027	**69,229**
Fiscal 2028–2032	**464,749**
Expected Contributions	
Fiscal 2023	**$ 44,009**

NOTE 13 — RELATED PARTY TRANSACTIONS:

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

Total loans to such persons at December 31, 2022, 2021, and 2020 for the Association amounted to $6,494,563, $5,544,060, and $5,692,277, respectively. During 2022, 2021, and 2020, $2,700,541, $2,281,387, and $2,666,185 of new loans were made, and repayments totaled $1,748,119, $3,410,127, and $1,235,028, respectively. In the opinion of management, no such loans outstanding at December 31, 2022, 2021, and 2020 involved more than a normal risk of collectability.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems and accounting services, and allocations of expenses incurred by the Bank and passed through to the associations, such as FCSIC expenses. The Bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled $1,132,592, $886,831, and $489,208 in 2022, 2021, and 2020, respectively.

The Association received patronage payments from the Bank and other District associations totaling $4,261,690, $3,873,740, and $3,274,968 during 2022, 2021, and 2020, respectively.

NOTE 14 — FAIR VALUE MEASUREMENTS:

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

Assets measured at fair value on a recurring basis at December 31, 2022, 2021, and 2020 for each of the fair value hierarchy values are summarized below:

December 31, 2022	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Assets held in nonqualified benefit trusts	**$ 63,500**	**$ -**	**$ -**	**$ 63,500**
Total assets	**$ 63,500**	**$ -**	**$ -**	**$ 63,500**

December 31, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 65,760	$ -	$ -	$ 65,760
Total assets	$ 65,760	$ -	$ -	$ 65,760

December 30, 2020	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 50,942	$ -	$ -	$ 50,942
Total assets	$ 50,942	$ -	$ -	$ 50,942

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

December 31, 2022	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Other property owned	**$ -**	**$ -**	**$ -**	**$ -**

December 31, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Other property owned	$ -	$ -	$ -	$ -

December 30, 2020	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Other property owned	$ -	$ -	$1,077,925	$1,077,925

The Association did not have any nonfinancial liabilities that were assessed at fair value on a recurring or nonrecurring basis for the years ended December 31, 2022, 2021, and 2020.

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

	December 31, 2022				
	Fair Value Measurement Using				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:					
Cash	**$ 10,710**	**$ 10,710**	**$ -**	**$ -**	**$ 10,710**
Net loans	**663,814,813**	**-**	**-**	**587,006,097**	**587,006,097**
Total Assets	**$ 663,825,523**	**$ 10,710**	**$ -**	**$ 587,006,097**	**$ 587,016,807**
Liabilities:					
Note payable to Bank	**$ 572,082,121**	**$ -**	**$ -**	**$ 506,432,102**	**$ 506,432,102**
Total Liabilities	**$ 572,082,121**	**$ -**	**$ -**	**$ 506,432,102**	**$ 506,432,102**

	December 31, 2021 Fair Value Measurement Using				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 39,628	$ 39,628	$ -	$ -	$ 39,628
Net loans	654,639,439	-	-	644,122,269	644,122,269
Total Assets	$ 654,679,067	$ 39,628	$ -	$ 644,122,269	$ 644,161,897
Liabilities:					
Note payable to Bank	$ 568,220,382	$ -	$ -	$ 559,166,722	$ 559,166,722
Total Liabilities	$ 568,220,382	$ -	$ -	$ 559,166,722	$ 559,166,722

	December 31, 2020 Fair Value Measurement Using				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 8,159	$ 8,159	$ -	$ -	$ 8,159
Net loans	606,130,749	-	-	610,822,681	610,822,681
Total Assets	$ 606,138,908	$ 8,159	$ -	$ 610,822,681	$ 610,830,840
Liabilities:					
Note payable to Bank	$ 525,451,138	$ -	$ -	$ 529,483,472	$ 529,483,472
Total Liabilities	$ 525,451,138	$ -	$ -	$ 529,483,472	$ 529,483,472

Uncertainty of Fair Value Measurements

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would have resulted in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default would have been accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Quoted market prices are generally not available for the instruments presented below. Accordingly, fair values are based on internal models that consider judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

Valuation Techniques

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

Investments

Where quoted prices are available in an active market, available-for-sale securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services, or discounted cash flows. Generally, these securities would be classified as Level 2. This would include certain mortgage-backed and asset-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Securities classified within Level 3 include a small portion of asset-backed securities and certain mortgage-backed securities, including private label FHA/VA securities and those issued by Farmer Mac.

Assets Held in Nonqualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Standby Letters of Credit

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

Loans Evaluated for Impairment

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

Other Property Owned

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

NOTE 15 — COMMITMENTS AND CONTINGENCIES

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

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2022, commitments to extend credit to borrowers totaled $13,268,762. There were no commercial letters of credit outstanding.

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

NOTE 16 — REGULATORY ENFORCEMENT MATTERS

As of December 31, 2022, there were no cease and desist orders, temporary cease and desist orders, supervisory or other written agreements, notices of charges, prohibitions and removals of officers and directors, civil money penalties, and other enforcement matters which have or could have a significant impact on the financial statements. Refer to Note 10, "Members' Equity," for enforcement action taken, if any, with respect to regulatory capitalization.

NOTE 17 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

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

	2022				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 4,368**	**$ 4,330**	**$ 4,317**	**$ 4,342**	**$ 17,357**
Noninterest expense, net	**(1,863)**	**(2,070)**	**(2,027)**	**(1,732)**	**(7,692)**
Net income	**$ 2,505**	**$ 2,260**	**$ 2,290**	**$ 2,610**	**$ 9,665**

	2021				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,112	$ 4,135	$ 4,204	$ 4,257	$ 16,708
Noninterest expense, net	(1,726)	(1,985)	(1,932)	(1,477)	(7,120)
Net income	$ 2,386	$ 2,150	$ 2,272	$ 2,780	$ 9,588

	2020				
	First	Second	Third	Fourth	Total
Net interest income	$ 3,789	$ 3,781	$ 3,815	$ 3,940	$ 15,325
Noninterest expense, net	(1,507)	(1,894)	(1,612)	(1,439)	(6,452)
Net income	$ 2,282	$ 1,887	$ 2,203	$ 2,501	$ 8,873

NOTE 18 — SUBSEQUENT EVENTS:

Subsequent to December 31, 2022, the Board of Directors approved the payment of a cooperative dividend of $6,435,520 in January of 2023. This amount was significantly more than the amount accrued for that payment on December 31, 2022. All relevant comments, statements, tables, and ratios have been adjusted based on the material change in the cooperative dividend payment.

The Association has evaluated subsequent events through February 15, 2023, which is the date the financial statements were issued or available to be issued and has determined that there were no other events requiring disclosure.

DISCLOSURE INFORMATION AND INDEX

(Unaudited)

Disclosures Required by Farm Credit Administration Regulations

DESCRIPTION OF BUSINESS

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

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

DESCRIPTION OF PROPERTY

The Heritage Land Bank, ACA (Association) serves its 16-county territory through its main administrative and lending office at 4608 Kinsey Drive in Tyler, Texas. Additionally, there are nine branch lending offices located throughout the territory. The Association owns the office buildings in Fort Worth, Greenville, Lindale, Lufkin, McKinney, Palestine, and Tyler, free of debt. The Association leases the office buildings in Athens and Nacogdoches.

LEGAL PROCEEDINGS

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

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference from Note 10 to the consolidated financial statements, “Members’ Equity,” included in this annual report.

DESCRIPTION OF LIABILITIES

The description of liabilities required to be disclosed in this section is incorporated herein by reference from Note 9, “Note Payable to the Bank,” Note 12, “Employee Benefit Plans,” and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in this annual report.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Notes 2 and 15 to the consolidated financial statements, “Summary of Significant Accounting Policies” and “Commitments and Contingencies,” respectively, included in this annual report.

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

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

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

The Association’s quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter end and can be obtained by writing to Heritage Land Bank, ACA, 4608 Kinsey Drive, Tyler, Texas 75703 or calling (903) 534-4975. Copies of the Association’s quarterly stockholder reports can also be accessed on the

Association's website at *www.heritagelandbank.com*. The Association's annual stockholder report is available on its website 75 days after the fiscal year end. Copies of the Association's annual stockholder report can also be requested 90 days after the fiscal year end.

SELECTED FINANCIAL DATA

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

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

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

DIRECTORS AND SENIOR OFFICERS

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

Name	Position	Date Elected / Employed	Term Expires
Kevin Sampson	Chair	2006	2024
Roger W. Claxton	Vice-Chair	2010	2025
Bryan Pickens	Director-Elect	2019	2024
Gary W. Ray	Director-Elect	2019	2025
Jack S. Pullen	Director	1982	2024
James Tarrant, Jr.	Director	2009	2024
R. Scott Line	Director	2014	2023
John Holloway	Director	2019	2025
Jeff Striplin	Director	2020	2023
William M. Tandy	CEO	2011	
Charlotte Sellers	CCO	2011	
Heath Gattis	CFO	2010	

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

Kevin Sampson, (Chair) age 54, is the chief engineer for M.P. Industries, Inc. in Tyler, Texas, where he has been employed for more than 25 years. He runs a cow-calf operation in Smith County. Additionally, Mr. Sampson produces hay, forage, Tifton 85 sprigs, and timber. Mr. Sampson serves on the Smith County Appraisal District Agriculture Advisory Committee. He has served as president, vice-president, and a budget committee member of the Smith County Farm Bureau, as well as a resolutions committee member for the Texas Farm Bureau. He is a graduate of the University of Texas at Austin with a bachelor's degree in Mechanical Engineering. Mr. Sampson has served on the board of Heritage Land Bank since 2006.

Roger W. Claxton, (Vice-Chair) age 64, owns and operates Claxton Farms, which consists primarily of a stocker cattle operation. Mr. Claxton is a retired agricultural science teacher. He serves on the boards of the Hunt County Farm Bureau, Hunt County Junior Livestock Association, Northeast Texas Farmers Co-op, Texas and Southwestern Cattle Raisers Association, and is a lifetime member of the Vocational Agricultural Teachers Association of Texas. An Elder of the Church of Christ, Mr. Claxton is a graduate of East Texas State University with a bachelor's and master's degrees in Agricultural Economics. He and his wife, Kathryn, have been married for 45 years and have three grown children. Mr. Claxton has served on the board of Heritage Land Bank since 2010.

Bryan Pickens, age 49, is a partner and broker associate with Republic Ranches, a full-service farm and ranch brokerage company serving clients across Texas, Oklahoma, Arkansas, Louisiana, Alabama, Colorado, and New Mexico. Mr. Pickens serves on the board of directors for the Texas Wildlife Association Foundation. He currently serves on the board for the Texas Freshwater Fisheries Center in Athens and is a former board member of the Texas Parks and Wildlife Foundation. He received his bachelor's degree from Vanderbilt University and his MBA from Southern Methodist University. He and his wife, Jennifer, are landowners in Henderson County and the proud parents of four daughters. Mr. Pickens has served on the board of Heritage Land Bank since 2019.

Gary W. Ray, age 67, is founder and owner of MODCO Insurance Agency Inc. He has 37 years of experience insuring oil and gas wells, ranches, and jets. He is a supporter and fundraiser for 4-H and FFA kids showing at the Fort Worth Stock Show and Rodeo, as well as past chairman and 32-year member of the Fort Worth Stock Show Syndicate, a founding member of the U Ol' Goats Committee, and co-founder of the Tallest Hog at the Trough Syndicate. Mr. Ray serves on the board of directors for Southwestern Exposition and Livestock Show and is a member of Port Bay Hunting and Fishing Club. Mr. Ray has served on the board of Heritage Land Bank since 2019.

Jack S. Pullen, age 76, is a Texas A&M graduate and a retired right-of-way agent with the Texas Department of Transportation. He owns a cow-calf operation in Rockwall County specializing in breeding club calves and registered Hereford cattle. In addition, he is involved in real estate and hay and small grains production. Mr. Pullen has been a self-employed rancher for over 50 years. He is president of RCH Water Corporation, past president of Rockwall Youth Fair, and a former city councilman for McLendon/Chisholm. He is also a member of Rockwall Lions Club, Texas Polled Hereford Association, Rockwall County Historical Society, Rockwall County Farm Bureau board of directors, the Texas Hereford Association board of directors, First Baptist Church of Rockwall, and a charter member of the Rockwall County A&M Club. Mr. Pullen has served on the board of Heritage Land Bank since 1982.

James Tarrant, Jr., age 66, has owned and operated Consolidated Wood Products in Bullard, Texas, for over 35 years. He is a former loan officer and credit analyst for North Texas PCA and AgriLand Farm Credit Services. Mr. Tarrant has served as a director for the Cherokee County Electric Co-op, North Cherokee Water Corp., Texas National Bank and Cherokee County Appraisal District, and served 12 years on the Jacksonville ISD School Board, including two years as president. He has also been a member of the Bullard Rotary Club. Among his other honors and distinctions, Mr. Tarrant is a 1989 graduate of the Texas Agricultural Lifetime Leadership Program, served on the 2002 Texas A&M College of Agriculture Development Council, was a delegate to the State Republican Convention, and was an adult Sunday school teacher for over 20 years. Mr. Tarrant graduated from Texas A&M University in 1979 with a degree in range science and agricultural economics. He and his wife, Meredith, have five grown children and five grandchildren. Mr. Tarrant has served on the board of Heritage Land Bank since 2009.

R. Scott Line, age 67, is owner and operator of Line Land and Cattle, LLC, a cow-calf operation in Cherokee County with approximately 300 head of cattle, excluding calves. He is a retired Certified Public Accountant and has been self-employed for over 30 years. Mr. Line is the previous owner of Map Production Co., Inc., a small, independent oil and gas company. He is a graduate of Texas Tech University with a bachelor's degree in accounting. Mr. Line is a director of Highland Park Estates HOA, a member of Texas and Southwestern Cattle Raisers Association, and a former member of the Texas State Society of CPAs. Mr. Line has served on the board of Heritage Land Bank since 2014.

John Holloway, age 48, is the Live Operations Complex manager for Tyson Foods in Center, Texas. He has 26 years of poultry industry experience with Tyson Foods and Pilgrim's Pride. Mr. Holloway owns and operates six broiler houses for Tyson Foods. He also owns and manages a cow-calf operation and timber land. Mr. Holloway earned a bachelor's degree in poultry science from Texas A&M University. He serves as chairman of the board of the Shelby Soil and Water Conservation District. Mr. Holloway also previously served on the boards of the Attoyac Bayou Steering Committee and the Nacogdoches/Angelina Ground Water District. He and his wife, Chelsea, have two sons and are members of the First Baptist Church of Center, Texas. Mr. Holloway has served on the board of Heritage Land Bank since 2019.

Jeff Striplin, age 51, is assistant water system manager – treatment for the North Texas Municipal Water District in Wylie, Texas, where he has worked for 27 years. He is also a first-generation rancher with a cow-calf operation on 115 acres and raises stocker calves, dairy heifer replacements, club lambs, and replacement ewes. Mr. Striplin serves on the Hunt County Farm Bureau board, Hunt County Fair and Junior Livestock Association board, is secretary of the Bland ISD School Board, and is immediate past president of the Bland Youth Sports Association. He is also president of the Cotton Belt District of the Texas Water Utilities Association. He was a member of Texas Association of School Boards 2020 – 2021 Legislative Advisory Council, previously was assistant Area 45 director for District 50 of Toastmasters International, and served on the Texas Farm Bureau resolutions committee. Mr. Striplin is a member of Texas Farm Bureau, Northeast Texas Farmers Co-op, Texas and Southwestern Cattle Raisers Association, American Water Works Association, Texas Water Utilities Association, Water Environment Association of Texas, Water Environment Federation, Hunt County Junior Livestock Association, and Toastmasters International. He and his wife, Samantha, have two children. Previously, Mr. Striplin served on Heritage Land Bank's advisory and nominating committees. He has served on the board of Heritage Land Bank since 2020.

William M. Tandy, age 67, chief executive officer (CEO), was employed by the Association on January 1, 2011. Mr. Tandy received his bachelor's degree in Business Finance from the University of Montana and his MBA from Southern Methodist University. He has worked in the banking industry for 40 years, serving as bank president and CEO for nearly 30 of those years. He has extensive experience in raising capital, working out problem loans, and managing regulatory relationships. He also worked in the liquidation division of the Federal Deposit Insurance Corporation, where he assisted and managed the reorganization and/or closing of numerous banks.

Charlotte Sellers, age 57, chief credit officer (CCO), has been employed by the Association since February 2011. Mrs. Sellers received her bachelor's degree in Business Administration from Murray State University in Kentucky. She is also a graduate of the Economic Development Institute in Norman, Oklahoma. Mrs. Sellers has 20 years of banking experience in management, growing accrual loans as a CCO, commercial and residential lending, collections, working out problem assets, credit underwriting, and compliance.

Heath Gattis, age 55, chief financial officer (CFO), was employed by the Association in November of 2010 and was elevated to his current role in May of 2018. Mr. Gattis received his bachelor's degree in Business Administration-Finance from Texas A&M University in College Station, Texas, in 1992. He has worked in the banking industry for 30 years with experience in state bank supervision and auditing, CEO of a community bank, and roles in credit administration, credit underwriting, compliance, and direct lending.

COMPENSATION OF DIRECTORS

Directors were compensated for their service to the Association in the form of an honorarium for director meetings and committee meetings. Outside directors, the Chair, and stockholder-elected directors were compensated at a rate of $1,000 per day, $800 per day, and $700 per day, respectively, and they were reimbursed for certain expenses incurred while representing the Association in an official capacity. Mileage for attending official meetings was paid at the IRS-approved rate of 58.5 cents per mile from January through June 2022 and 62.5 cents per mile from July through December 2022. A copy of the travel policy is available to stockholders of the Association upon request.

	Number of Days Served Associated With		
Director	**Board Meetings**	**Other Official Activities**	**Total Compensation in 2022**
Kevin Sampson	12	10	$ 19,900
Roger W. Claxton	12	13	22,600
Bryan Pickens	8	5	11,900
Gary W. Ray	12	9	21,600
Jack S. Pullen	12	10	18,700
James Tarrant, Jr.	11	8	16,600
R. Scott Line	12	10	18,700
John Holloway	12	9	16,900
Jeff Striplin	12	10	20,500
			$ 167,400

The aggregate compensation paid to directors in 2022, 2021, and 2020 was $167,400, $168,450, and $193,619, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows for 2022:

	Committee	
Director	**Audit / Compensation**	**Risk**
Kevin Sampson	$ 4,900	$ -
Roger W. Claxton	4,900	-
Bryan Pickens	2,800	-
Gary W. Ray	-	4,200
Jack S. Pullen	4,900	-
James Tarrant, Jr.	-	3,500
R. Scott Line	4,900	-
John Holloway	-	4,200
Jeff Striplin	-	4,200
	$ 22,400	$ 16,100

The aggregate amount of reimbursement for travel, subsistence, and other related expenses paid to directors and on their behalf was $108,968, $55,343, and $67,225 in 2022, 2021, and 2020, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Senior Officers

The compensation program of the Association should provide, in addition to attractive employee benefits, the administration of a salary plan including incentive compensation, which is consistent within the industry for the area. The Association's board of directors believes that an integral part of the salary plan should be incentive compensation, which rewards employees for the overall financial success of the Association and their contribution to that success.

Senior officers, including the CEO, are eligible to participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) plan (the Plan). The Plan is a defined contribution plan and is sponsored by the AgFirst/FCBT Plan Sponsor Committee. This plan allows district employers to elect to participate in any or all of the following benefits:

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

The Association elected to participate in the above-mentioned benefit elections. There were no contributions or payments to/from the Supplemental 401(k) plan to active employees during 2022, 2021, or 2020.

The Association currently has no active employees participating in the defined benefit retirement plan (DB Plan).

Summary Compensation Table

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

Name of Individual or Number in Group[a]	Year	Salary[b]	Bonus[c]	Deferred/ Perquisite[d]	Total
William M. Tandy,					
CEO	**2022**	**$ 325,000**	**$ 80,000**	**$ 10,378**	**$ 415,378**
	2021	316,009	75,000	9,483	400,492
	2020	307,012	70,000	10,742	387,754
Top Five Senior Officers					
	2022	**$ 810,000**	**$ 177,000**	**$ 29,193**	**$1,016,193**
	2021	754,022	173,300	24,935	952,257
	2020	743,029	116,000	22,199	881,228

[a] Aggregate number of senior officers/highly compensated individuals, excluding CEO.
[b] Gross salary, including retention plan compensation for certain senior officers.
[c] Bonuses paid within the first 30 days of the subsequent calendar year.
[d] Deferred/Perquisites include contributions to 401(k) and defined contribution plans, supplemental 401(k) discretionary contributions, automobile benefits, and premiums paid for life insurance.

Disclosure of the compensation paid during 2022 to any senior officer or officer included in the table is available and will be disclosed to stockholders of the Association upon written request.

The CEO and senior officers of the Association are paid a salary and are eligible for incentive compensation based on the achievement of annual goals set by the board of directors. In setting salaries, the Association utilizes salary surveys to gauge the market value of benchmark jobs. This comparison of internal salary grades and ranges to salary survey data allows the Association to make any needed range adjustments to remain competitive in the labor market. All full-time employees are also eligible to participate in incentive compensation. The effective date of the incentive compensation shall be the fiscal year end of the Association. Payouts will occur no later than February of each year after confirmation and verification of results of the prior year by the board of directors. Branch office employees' incentive will be based on performance criteria related to their individual branches' profitability and individual performance evaluations. The Association considered profitability to include return on loan assets, loan growth, delinquency percentage, loan pricing, credit administration, and credit quality of the loan portfolio.

Corporate office employee incentive compensation is to reward those who support the lending staff and administration of the Association. The corporate office incentive will be based on overall Association performance standards, which include return on assets and equity, capital adequacy and efficiency ratios, loan portfolio credit quality and Association loan growth as well as each employee's individual performance evaluation. Corporate office employees include accounting, loan processing, credit analysts, technical support, the CFO, and the CCO. The CEO is excluded, and any incentive compensation will be determined separately by the board of directors taking into account the overall performance of the Association and incentive compensation paid to employees.

Employees assigned association automobiles reimburse the Association for personal miles at a board-established rate. Employees who use their personal automobiles for business purposes were reimbursed during 2022 at the IRS-approved rate of 58.5 cents per mile from January through June 2022 and 62.5 cents per mile from July through December 2022.

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

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

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 13 to the consolidated financial statements, "Related Party Transactions," included in this annual report.

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

The Association had no certain legal proceedings during the last five years that were material to the evaluation of the ability of any person who served as a director or was employed as a senior officer in 2022.

RELATIONSHIP WITH INDEPENDENT AUDITOR

No change in auditors has taken place since the last annual report to stockholders, and no disagreements with auditors have occurred that the Association is required to report to the Farm Credit Administration under §621 of the FCA regulations governing this disclosure. Fees incurred for audit and tax services rendered by the independent auditors during the year ended December 31, 2022 were $35,151 and $6,750, respectively. No other services were rendered by the independent auditors.

RELATIONSHIP WITH UNINCORPORATED BUSINESS ENTITIES

Heritage Land Bank, ACA is a participant in a UBE known as Pickens County Properties, LLC, a South Carolina limited liability corporation. The UBE is owned by the Association along with other participants according to each participant's interest in a former multiple-lender loan transaction. The UBE was established as the acquired property, which was sold in 2019. Securing the loan was considered unusual and complex. The purpose of the UBE was to (1) make credit bids at a foreclosure sale, or other court approved auction, of property collateralizing the Association's indebtedness that is in default, and (2) hold and manage acquired property to minimize losses, protect the property's value, and limit potential liability to the Association, including taking appropriate actions to limit the potential for environmental contamination liability. With the sale completed in 2019 and there being no other assets of the UBE, the entity was dissolved in 2020.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of Henry & Peters, PC dated February 15, 2023, and the report of management in this annual report to stockholders, are incorporated herein by reference.

MEMBER/SHAREHOLDER PRIVACY

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

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

Heritage Land Bank, ACA (Association) recognizes that adequate capital resources are a significant obstacle facing young, beginning, and small (YBS) farmers and ranchers. The Association is aware that the future success of America's agricultural and/or aquatic production is dependent on adding and retaining a new generation of producers who are well trained in production and marketing and have access to a steady source of financing. Since lending support to YBS operators is of utmost importance, the Association has designed a program with special underwriting criteria along with other enhancements. The Association continues to actively support other programs, events, scholarships, and educational activities that benefit young individuals who will become the next generation of agricultural providers.

The following are definitions for "young," "beginning," and "small" farmers and ranchers used by the Association:

Young Farmer and Rancher – A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the date the loan was originally made.

Beginning Farmer and Rancher – A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less of experience at farming, ranching, or producing or harvesting aquatic products as of the date the loan was originally made.

Small Farmer and Rancher – A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250,000 in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

The Association provides quarterly and annual reports measuring achievement with respect to the Association's performance against YBS goals and the demographics of the territory it serves using USDA AgCensus data. The Association's YBS data for the 16 chartered counties serviced as compared to the 2017 USDA-NASS AgCensus data for 2022 and 2021 is shown below:

		Heritage Land Bank, ACA			
	2017 USDA AgCensus	**2022**	**% of Market Segment**	**2021**	**% of Market Segment**
Young Farmers	1,376	**506**	**36.8%**	498	36.2%
Beginning Farmers	9,339	**2,174**	**23.3%**	2,195	23.5%
Small Farmers	22,876	**2,752**	**12.0%**	2,793	12.2%

The Association's YBS loan activity for 2022 and 2021 is reflected in the following table. (Volume is in thousands):

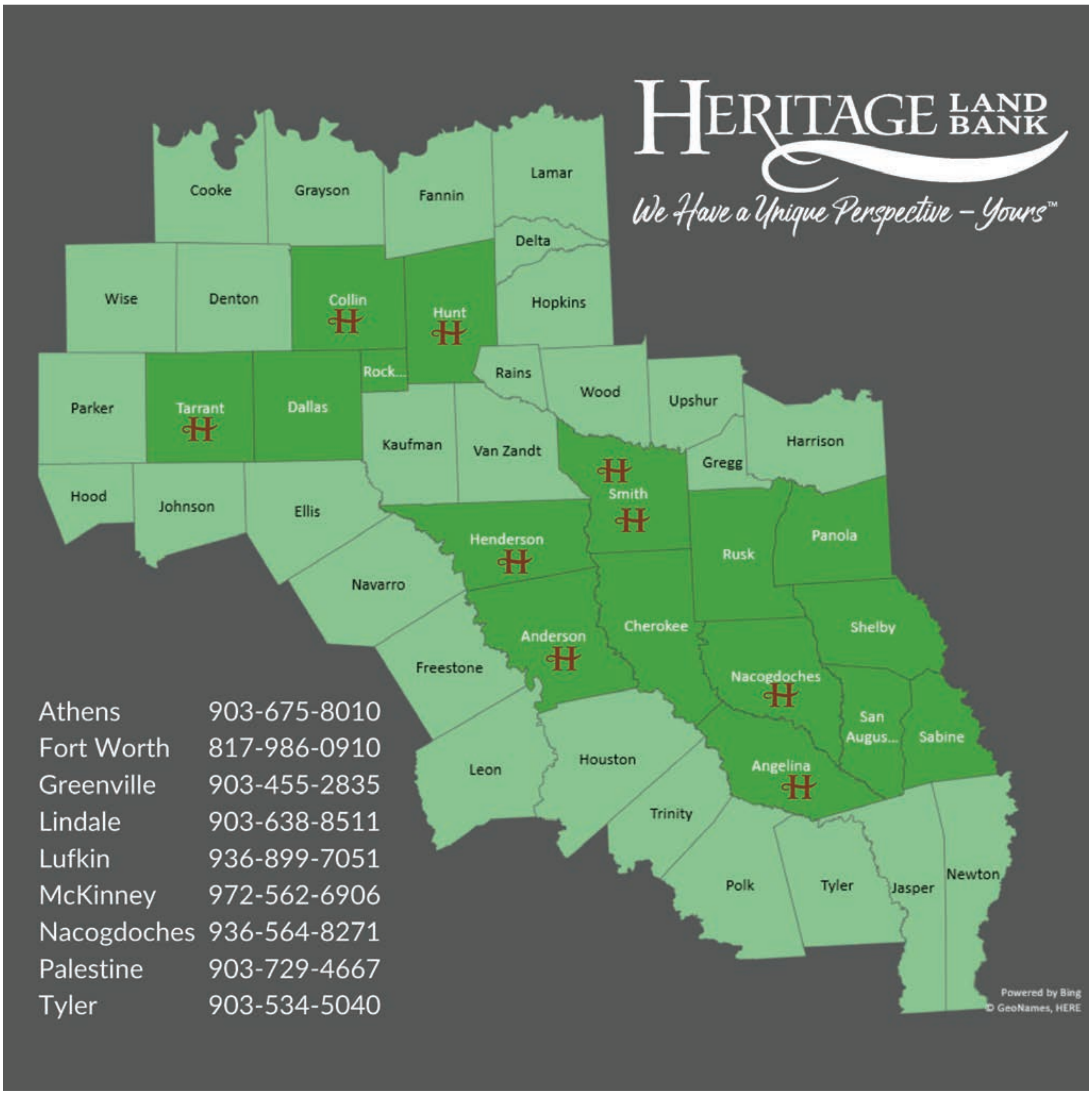
	2022 Loan Figures		**2021 Loan Figures**		**Increase (Decrease)**		**% Change**	
	Total # of Loans	**Total Loan Volume**	**Total # of Loans**	**Total Loan Volume**	**Total # of Loans**	**Total Loan Volume**	**Total # of Loans**	**Total Loan Volume**
Young Farmers	**506**	**$112,458**	498	$110,985	8	$ 1,473	1.6%	1.3%
Beginning Farmers	**2,174**	**498,956**	2,195	495,120	(21)	3,836	-1.0	0.8
Small Farmers	**2,752**	**577,301**	2,793	572,052	(41)	5,249	-1.5	0.9

In 2022, the Association projected a 3.0 percent, 2.0 percent, and 3.0 percent growth in number and volume of young, beginning, and small loans, respectively. On December 31, 2022, the Association's number and volume of young, beginning, and small farmers loans did not meet the target projections for growth. Due to a rapidly increasing interest rate environment, all loan categories struggled for growth. Young, beginning, and small farmers were no exception. The Association continues to actively participate in many outreach activities including, youth livestock shows, hay shows, County Extension programs, local Farm Day, 4-H and FFA events, and Chamber activities.

About Heritage Land Bank

Heritage Land Bank provides innovative financing solutions other banks simply can't offer when it comes to rural real estate, agricultural operations, agribusinesses, and country homes. Founded in 1917, Heritage Land Bank is a member of the Farm Credit System, a nationwide network of rural lending cooperatives.

With headquarters located in Tyler, Heritage Land Bank operates across 16 Texas counties ranging from Dallas-Fort Worth to Lufkin. To learn more, visit heritagelandbank.com.



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Heritage Land Bank
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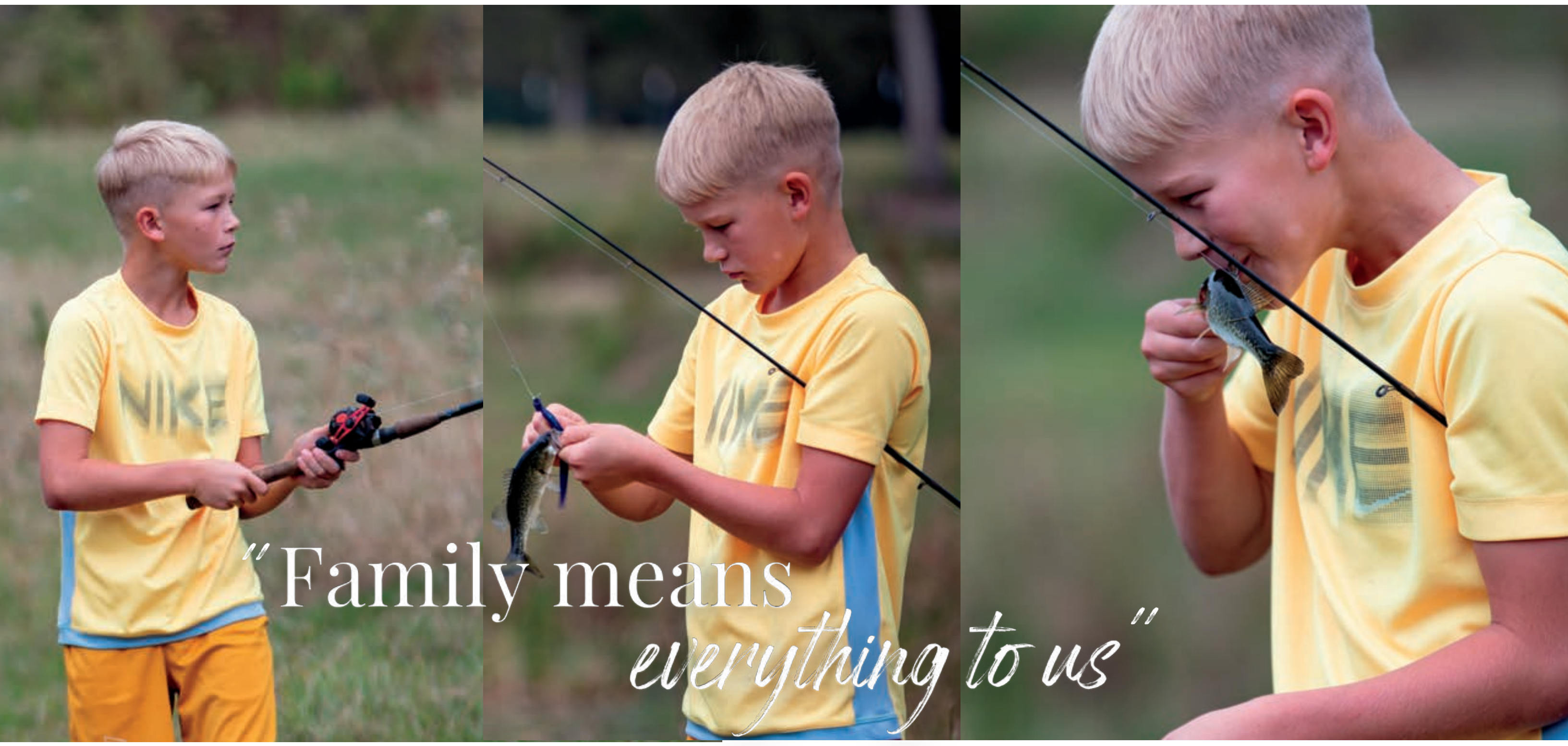

Family means a little more in the country, because we spend time together. The kind of time you remember all your life.

It's the reason why Steven and Lori Anding plan to keep buying land.

Land they can use for four-wheeling and fishing, hiking and hunting, and for passing down family traditions.

Families like the Andings are why Heritage Land Lank finances rural land, and why we've never sold a single loan.

It's also why our hearts swell with pride when people like Steven and Lori call us "family."

Because around here, that means something special.

HERITAGE LAND BANK

We Have a Unique Perspective – Yours™