LONE STAR, ACA

2022
Quarterly Report
Third Quarter

LONE STAR
AG CREDIT

For the Quarter Ended September 30, 2022

REPORT OF MANAGEMENT

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

Joe H. Hayman, Chief Executive Officer	Brent Neuhaus, Chairman, Board of Directors
November 9, 2022	November 9, 2022
Nicholas Acosta, Chief Financial Officer	David Conrad, Chairman, Audit Committee
November 9, 2022	November 9, 2022

Third Quarter 2022 Financial Report

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LONE STAR, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis reviews the consolidated financial performance of the Lone Star, ACA, (ACA) including its wholly-owned subsidiaries Lone Star, FLCA and Lone Star, PCA, (collectively referred to herein as the "Association") for the three and nine months ended September 30, 2022. The discussion should be read in conjunction with the Association's Annual Report to Stockholders, and notes thereto, for the year ended December 31, 2021. Operating results for the three and nine months ended September 30, 2022, are not necessarily indicative of the results for the year ending December 31, 2022, or any future period.

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

Since 1917, the Association and its predecessors have provided its members with quality financial services. The Board 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.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's Audit Committee.

Patronage Refunds by Association:

In December 2021, the Board declared a cash patronage in the amount of $24,154,277 paid in February 2022, based on 2021 earnings. The patronage was paid to eligible borrowers based on their average outstanding loan balance for the year ending December 31, 2021. The Association's permanent capital remains strong after the declaration and distribution of patronage at 15.1 percent for the period ending September 30, 2022.

Patronage Refunds Received from the Farm Credit Bank of Texas (Bank):

The following table provides information on the patronage received from the Bank for the year ended December 31, 2021:

	2021
Direct loan patronage	$ 11,413,146
Stock investment in the Bank	534,798
AMBS investment patronage	114,337
Total Patronage Received	$ 12,062,281

The direct loan patronage received represents 65 basis points on average daily balance of the Association's direct loan with the Bank.

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, farm-related business loans and rural infrastructure loans through purchased participations. These loan products are available to eligible borrowers with competitive variable, fixed, adjustable, SOFR-based, and prime-based interest rates. Commercial loans primarily consist of operating loans and short-term loans for working capital, equipment and livestock. Mortgage loans primarily consist of 15- to 30- year maturities. 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.

Total loans outstanding at September 30, 2022, including nonaccrual loans, were $2,474,302,231 compared to $2,287,885,939 at December 31, 2021, reflecting an increase of 8.2 percent. Total nonaccrual loans outstanding at September 30, 2022, were $2,983,839 compared to $3,231,936 at December 31, 2021, reflecting a decrease of 7.7 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.1 percent at September 30, 2022, compared to 0.1 percent at December 31, 2021. Total impaired loans outstanding at September 30, 2022, were $3,094,823 compared to $3,333,584 at December 31, 2021, reflecting a decrease of 7.2 percent. Impaired loans as a percentage of total loans outstanding were 0.1 percent at September 30, 2022, compared to 0.1 percent at December 31, 2021.

The Association recorded $8,053 in recoveries and no charge-offs for the quarter ended September 30, 2022, and $421,137 in recoveries and $20,889 in charge-offs for the same period in 2021. The Association's allowance for credit losses was 0.3 percent and 0.3 percent of total loans outstanding as of September 30, 2022, and December 31, 2021, respectively.

Risk Exposure:

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

	September 30, 2022		December 31, 2021	
	Amount	**%**	Amount	%
Nonaccrual	**$ 2,983,839**	**96.4%**	$ 3,231,936	97.0%
Accruing restructured loans	**110,984**	**3.6%**	101,648	3.0%
Total	**$ 3,094,823**	**100.0%**	$ 3,333,584	100.0%

At September 30, 2022 and December 31, 2021, the Association held no property classified as other property owned and loans that are past 90 days or more and still accruing interest.

Results of Operations:

The Association had net income of $11,897,658 and $38,441,703 for the three and nine months ended September 30, 2022, as compared to net income of $13,793,514 and $35,294,808 for the same period in 2021, reflecting a decrease of 13.7 percent and an increase of 8.9 percent, respectively. Net interest income was $17,353,076 and $50,670,936 for the three and nine months ended September 30, 2022, compared to $18,113,900 and $45,873,006 for the same period in 2021, respectively.

	Nine Months Ended			
	September 30, 2022		September 30, 2021	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 2,408,946,003**	**$ 83,547,626**	$ 2,068,166,139	$ 70,982,377
Total interest-earning assets	**2,408,946,003**	**83,547,626**	2,068,166,139	70,982,377
Interest-bearing liabilities	**2,031,987,965**	**32,876,690**	1,710,538,527	25,109,371
Impact of capital	**$ 376,958,038**		$ 357,627,612	
Net interest income		**$ 50,670,936**		$ 45,873,006

	2022 Average Yield	2021 Average Yield
Yield on loans	**4.64%**	4.59%
Total yield on interest-earning assets	**4.64%**	4.59%
Cost of interest-bearing liabilities	**2.16%**	1.96%
Interest rate spread	**2.48%**	2.63%
Net interest income as a percentage of average earning assets	**2.81%**	2.97%

	Nine months ended: September 30, 2022 vs. September 30, 2021		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$11,696,148**	**$ 869,101**	**$12,565,249**
Interest expense	**4,718,612**	**3,048,707**	**7,767,319**
Net interest income	**$ 6,977,536**	**$ (2,179,606)**	**$ 4,797,930**

Interest income for the three and nine months ended September 30, 2022, increased by $3,287,489 and $12,565,249, or 12.3 percent and 17.7 percent, respectively, from the same period of 2021, primarily due to an increase in average interest-earning assets and yield on interest-earning assets. Interest expense for the three and nine months ended September 30, 2022, increased by $4,048,313 and $7,767,319, or 46.9 percent and 30.9 percent, respectively, from the same period of 2021, due to an increase in average interest-bearing liabilities and the cost of interest-bearing liabilities. Average loan volume for the third quarter of 2022 was $2,471,846,277, compared to $2,118,797,503 in the third quarter of 2021. The average net interest rate spread on the loan portfolio for the third quarter of 2022 was 2.42 percent, compared to 3.06 percent in the third quarter of 2021.

The Association's return on average assets for the nine months ended September 30, 2022, was 2.09 percent, compared to 2.24 percent for the same period in 2021. The Association's return on average equity for the nine months ended September 30, 2022, was 12.68 percent, compared to 12.43 percent for the same period in 2021.

Noninterest income for the three and nine months ended September 30, 2022, increased by $864,929 and $2,297,902, or 27.9 percent and 24.7 percent, respectively, from the same period of 2021, primarily due to an increase in patronage income from the Bank. Noninterest expenses for the three and nine months ended September 30, 2022, increased by $1,515,241 and $3,876,484, or 19.2 percent and 18.4 percent, respectively, from the same period of 2021, primarily due to an increase in insurance fund premiums, as the premium rate was increased effective January 2022, and an increase in salary and employee benefits attributed to planned staffing changes.

Provisions for credit losses for the three and nine months ended September 30, 2022, increased by $439,855 and $20,684, or 105.4 and 1.8 percent, respectively, from the same period of 2021, primarily due to an increase in loan assets in 2022 and reversal of provision for credit losses for the three months ended September 30, 2021, due to recoveries.

Liquidity and Funding Sources:

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

	September 30, 2022	December 31, 2021
Note payable to the Bank	**$ 2,088,342,004**	$ 1,900,150,481
Accrued interest on note payable	**4,249,371**	3,072,087
Total	**$ 2,092,591,375**	$ 1,903,222,568

The outstanding balance of the note payable to the Bank was $2,088,342,004 as of September 30, 2022, and is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.53 percent at September 30, 2022. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the General Financing Agreement (GFA). The increase in note payable to the Bank since December 31, 2021, correlates directly with the overall increase in the Association accrual loan volume for the period. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $389,642,199 at September 30, 2022. The maximum amount the Association may borrow from the Bank as of September 30, 2022, was $2,480,108,462 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.

Capital Resources:

The Association's capital position increased by $38,482,040 at September 30, 2022, compared to December 31, 2021. The Association's debt as a percentage of members' equity was 4.97:1 as of September 30, 2022, compared to 5.04:1 as of December 31, 2021.

FCA regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of September 30, 2022, the Association exceeded all regulatory capital requirements.

Economic Conditions:

The Association continues to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. The Association is closely monitoring its loan portfolio overall and is 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. Capital levels remained strong to support any adversity.

Inflationary pressures continued during the third quarter of 2022. The Federal Open Market Committee (FOMC) has increased the target federal funds rate by a total of 300 basis points through the end of the third quarter, including three consecutive 75-basis-point increases in June, July, and September. As of September 30, 2022, the federal funds target range rate is 3.00 – 3.25 percent. The FOMC is strongly committed to returning inflation to its 2 percent long-run objective. The Consumer Price Index for All Urban Consumers increased by 8.3 percent for the 12-month period ending August 2022, up from 5.2 percent for the same period last year, but down from a peak of 9.0 percent reached in June 2022.

On September 29, 2022, the U.S. Bureau of Economic Analysis (BEA) released its third estimate of real gross domestic product (GDP). BEA confirmed that the U.S. economy experienced two consecutive quarters of negative growth during the first and second quarters of 2022, contracting at annualized rates of -1.6 percent and -0.6 percent, respectively.

Respondents to the Federal Reserve Bank of Philadelphia's Third Quarter 2022 Survey of Professional Forecasters released in August estimated that real GDP growth would reach an annual rate of 1.4 percent during the third quarter. According to the International Monetary Fund's latest World Economic Outlook released in July 2022, U.S. real GDP growth is estimated to be 2.3 percent in 2022 and 1.0 percent in 2023. The most recent data available from the U.S. Bureau of Labor Statistics indicates that the U.S. unemployment rate was 3.7 percent in August, slightly up from 3.6 percent in June, but down from 5.2 percent in August 2021.

In terms of the Texas District, second quarter real GDP growth rates released by BEA on September 30 ranged from 1.8 percent in Texas to -3.0 percent in Louisiana. Likewise, the August unemployment rates ranged from 2.6 percent in Alabama to 4.4 percent in New Mexico, relatively close to the national average of 3.7 percent.

The West Texas Intermediate (WTI) crude oil futures price declined from an average of about $109 per barrel in the second quarter to an average of about $91 per barrel during the third quarter of 2022. However, quarterly average WTI crude oil prices increased by nearly 30 percent year-over-year (YOY). In its September Short Term Energy Outlook (STEO), the U.S. Energy Information Administration estimated that WTI prices would average about $98 per barrel in 2022, down about $4 per barrel from its June estimate. The September STEO also states that natural gas prices increased in August, reflecting continued strong demand from the electric power sector, keeping natural gas inventories below their five-year average.

In September 2022, the U.S. Department of Agriculture (USDA) presented its latest farm income forecast. Net farm income (nominal) is forecast at $147.70 billion in 2022, up about 5.2 percent YOY. Total production expenses (nominal) are forecast to increase by about 17.8 percent in 2022. Farm sector assets and equity are both forecast to increase by about 9.7 percent and 10.4 percent, respectively, while farm debt is forecast to decrease by about 4.6 percent in nominal terms. The debt-to-assets ratio is forecast to continue improving in 2022.

According to USDA's September 2022 World Agricultural Supply and Demand Estimates report, average farm prices for corn, soybeans and cotton will increase during the 2022/23 marketing year. Similarly, steer prices are estimated to have averaged higher during the third quarter of 2022 compared to the prior quarter and are expected to continue rising during the fourth quarter. Overall, steers, broilers and turkeys are projected to experience double-digit increases in 2022 while barrows and gilts prices are projected to rise by about 6 percent. The USDA is similarly projecting high inflation in all-milk, with prices reaching an average of about $25 per hundredweight (cwt) during 2022, before declining to around $22/cwt in 2023. Lumber prices continued to trend lower during the third quarter of 2022 and decreased approximately 33 percent YOY.

The Federal Reserve Bank of Dallas released its third quarter Eleventh District Agricultural Survey on October 3, 2022. The Eleventh District includes Texas, southern New Mexico, and northern Louisiana. Survey respondents noted that extreme dry conditions continued to negatively impact agricultural production, particularly for cotton and pasture. At the end of September, more than 30 percent of Texas land area was experiencing drought conditions classified as severe, extreme, or exceptional. Currently, the impact of the drought is not materially impacting borrowers for which the Association has interests or credit quality in the Texas District. However, the uncertainty concerning the length and ultimate severity of the drought may have future impacts. The Association will continue to monitor the drought and associated impacts.

Agricultural producers may be negatively affected during the remainder of 2022 by several factors, including volatile commodity prices, high input costs, export market disruptions, geopolitical challenges, economic slowdown, and adverse weather conditions.

Significant Recent Accounting Pronouncements:

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

Relationship With the Bank:

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2021 Annual Report of the Association more fully describe the Association's relationship with the Bank.

The annual and quarterly stockholder reports of the Bank are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. The annual and quarterly stockholder reports are also available on its website at *www.farmcreditbank.com*.

The Association's annual and quarterly stockholder reports are also available free of charge, upon request. The annual and quarterly stockholder reports are available approximately 75 days after year end and 40 days after quarter end, respectively, and can be obtained by writing to Lone Star, ACA, 1612 Summit Avenue, Suite 300, Fort Worth, Texas 76102 or calling (817) 332-6565. The annual and quarterly stockholder reports for the Association are also available on its website at *www.lonestaragcredit.com*. Copies of the reports can also be requested by e-mailing *ShareHolderRelations@lonestaragcredit.com*.

LONE STAR, ACA

CONSOLIDATED BALANCE SHEETS

		September 30, 2022 (unaudited)		December 31, 2021
ASSETS				
Cash	$	157,090	$	39,698
Loans		2,474,302,231		2,287,885,939
Less: allowance for credit losses		(6,248,168)		(7,335,544)
Net loans		2,468,054,063		2,280,550,395
Accrued interest receivable		13,480,478		10,679,191
Investment in and receivable from the Bank:				
Capital stock		34,504,030		34,514,975
Other		11,300,897		822,414
Premises and equipment, net		3,739,124		3,395,415
Other assets		4,008,414		3,727,848
Total assets	$	2,535,244,096	$	2,333,729,936
LIABILITIES				
Note payable to the Bank	$	2,088,342,004	$	1,900,150,481
Accrued interest payable		4,249,371		3,072,087
Drafts outstanding		74,906		83,927
Patronage dividends payable		-		24,154,277
Other liabilities		17,759,688		19,933,077
Total liabilities		2,110,425,969		1,947,393,849
MEMBERS' EQUITY				
Capital stock and participation certificates		5,872,550		5,929,630
Additional paid-in capital		91,343,553		91,343,553
Unallocated retained earnings		328,532,890		290,017,251
Accumulated other comprehensive loss		(930,866)		(954,347)
Total members' equity		424,818,127		386,336,087
Total liabilities and members' equity	$	2,535,244,096	$	2,333,729,936

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

LONE STAR, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	**2022**	2021
INTEREST INCOME				
Loans	**$ 30,031,328**	$ 26,743,839	**$ 83,547,626**	$ 70,982,377
Total interest income	**30,031,328**	26,743,839	**83,547,626**	70,982,377
INTEREST EXPENSE				
Note payable to the Bank	**12,678,186**	8,629,900	**32,876,425**	25,109,077
Advance conditional payments	**66**	39	**265**	294
Total interest expense	**12,678,252**	8,629,939	**32,876,690**	25,109,371
Net interest income	**17,353,076**	18,113,900	**50,670,936**	45,873,006
PROVISION FOR (REVERSAL OF) CREDIT LOSSES	**22,530**	(417,325)	**(1,117,240)**	(1,137,924)
Net interest income after provision for (reversal of) credit losses	**17,330,546**	18,531,225	**51,788,176**	47,010,930
NONINTEREST INCOME				
Income from the Bank:				
Patronage income	**3,627,628**	2,799,191	**10,518,510**	8,189,067
Loan fees	**175,382**	251,856	**543,498**	702,907
Financially related services income	**859**	896	**2,572**	3,124
Gain on sale of premises and equipment, net	**125,914**	18,263	**270,067**	215,717
Other noninterest income	**34,813**	29,461	**268,274**	194,204
Total noninterest income	**3,964,596**	3,099,667	**11,602,921**	9,305,019
NONINTEREST EXPENSES				
Salaries and employee benefits	**5,677,585**	4,920,200	**13,923,692**	12,759,938
Directors' expense	**117,564**	165,415	**382,040**	390,016
Purchased services	**597,967**	462,704	**1,659,560**	1,341,497
Travel	**293,337**	221,124	**704,916**	581,859
Occupancy and equipment	**677,625**	584,854	**2,047,630**	1,711,651
Communications	**69,125**	84,825	**198,471**	329,445
Advertising	**269,719**	165,739	**796,274**	389,351
Public and member relations	**223,995**	271,212	**953,946**	619,766
Supervisory and exam expense	**158,908**	115,822	**476,726**	399,834
Insurance Fund premiums	**982,052**	653,527	**2,858,176**	1,896,771
Other components of net periodic postretirement benefit cost	**50,453**	51,407	**151,355**	154,222
Other noninterest expense	**272,917**	179,177	**777,062**	479,014
Total noninterest expenses	**9,391,247**	7,876,006	**24,929,848**	21,053,364
Income before income taxes	**11,903,895**	13,754,886	**38,461,249**	35,262,585
Provision (benefit) for income taxes	**6,237**	(38,628)	**19,546**	(32,223)
NET INCOME	**11,897,658**	13,793,514	**38,441,703**	35,294,808
Other comprehensive income:				
Change in postretirement benefit plans	**7,827**	10,695	**23,481**	32,085
COMPREHENSIVE INCOME	**$ 11,905,485**	$ 13,804,209	**$ 38,465,184**	$ 35,326,893

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

LONESTAR, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2020	$ 5,841,380	$ 91,343,553	$ -	$ 267,904,169	$ (1,060,093)	$ 364,029,009
Comprehensive income	-	-	-	35,294,808	32,085	35,326,893
Capital stock/participation certificates issued	887,755	-	-	-	-	887,755
Capital stock/participation certificates retired	(832,400)	-	-	-	-	(832,400)
Dividends declared	-	-	-	109,654	-	109,654
Balance at September 30, 2021	$ 5,896,735	$ 91,343,553	$ -	$ 303,308,631	$ (1,028,008)	$ 399,520,911
Balance at December 31, 2021	$ 5,929,630	$ 91,343,553	$ -	$ 290,017,251	$ (954,347)	$ 386,336,087
Comprehensive income	-	-	-	38,441,703	23,481	38,465,184
Capital stock/participation certificates issued	582,305	-	-	-	-	582,305
Capital stock/participation certificates retired	(639,385)	-	-	-	-	(639,385)
Dividends declared	-	-	-	73,936	-	73,936
Balance at September 30, 2022	**$ 5,872,550**	**$ 91,343,553**	**$ -**	**$ 328,532,890**	**$ (930,866)**	**$ 424,818,127**

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

LONE STAR, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Lone Star, ACA, including its wholly-owned subsidiaries, Lone Star, PCA and Lone Star, FLCA, is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Bell, Borden, Bosque, Bowie, Burnet, Camp, Cass, Cooke, Coryell, Dallas, Delta, Denton, Eastland, Ellis, Erath, Falls, Fannin, Fisher, Freestone, Grayson, Hamilton, Hill, Hood, Johnson, Kent, Lamar, Lampasas, Limestone, McLennan, Milam, Mitchell, Morris, Navarro, Nolan, Palo Pinto, Parker, Red River, Scurry, Shackelford, Somervell, Stephens, Tarrant, Taylor, Throckmorton, Titus, Williamson, Wise and Young in the state of Texas. The Association is a lending institution of the Farm Credit System, which was established by Acts of Congress to meet the needs of American agriculture.

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

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

In March 2022, the Financial Accounting Standards Board (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 refinancing 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, including the Association, 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 June 2016, the FASB issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a single allowance framework for financial assets carried at amortized cost, which reflects management’s estimate of expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For public business entities that are not U.S. Securities and Exchange Commission filers including the Association, this guidance becomes effective for interim and annual reporting periods beginning after December 15, 2022. We continue to test and refine our current expected loss models.

The Association intends to estimate losses over a two-year forecast period using a range of macroeconomic variables and then revert to the Association’s historical loss experience over an extended period of time. The impact of adoption of the standard is expected to be immaterial to the Association’s financial condition. This estimate will ultimately depend on the nature of the loan portfolio, final validation of models and methodologies, management’s judgments, including macroeconomic conditions and related forecasts at the adoption date of January 1, 2023.

NOTE 2 — INVESTMENTS:

The Association may hold mission-related and other investments. The Farm Credit Administration approves mission-related programs and other mission-related investments. The following is a summary of mission-related and other investments that are held to maturity:

During 2010, the Association exchanged loans totaling $59,626,146 for Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed mortgage-backed securities (AMBS). The loans were previously covered under the Long-Term Standby Commitment to Purchase Agreements with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions.

Effective January 26, 2012, the Bank purchased the Association's securitized Farmer Mac AMBS Investments. The purchase of $35,459,508 included outstanding principal and accrued interest as of that date. There was no gain or loss recognized by the Association on this transaction. The Association will continue to service the underlying loans that were included in this security. Also, for 2012 there was no effect to the Association's income based on this transaction as the Bank was able to pay the Association a patronage equivalent to the net interest that it would have earned on the AMBS investment. The amount of patronage received in 2021 was $114,337. However, for future years, the Bank's payment of patronage is at the discretion of the Bank's board of directors. The remaining balance of the AMBS investment at September 30, 2022, was $2,546,676.

NOTE 3 — LOANS AND ALLOWANCE FOR CREDIT LOSSES:

A summary of loans follows:

Loan Type	**September 30, 2022 Amount**	December 31, 2021 Amount
Production agriculture:		
Real estate mortgage	**$ 2,035,485,384**	$ 1,859,039,229
Production and intermediate term	**134,237,409**	131,798,156
Agribusiness:		
Loans to cooperatives	**19,536,225**	7,259,997
Processing and marketing	**141,864,364**	143,460,471
Farm-related business	**60,604,332**	55,455,694
Communication	**42,481,559**	43,807,116
Energy	**22,691,196**	24,713,083
Water and wastewater	**995,595**	4,169,272
Rural residential real estate	**8,234,472**	10,012,596
International	**8,171,695**	8,170,325
Total	**$ 2,474,302,231**	$ 2,287,885,939

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the recorded investment balances of participations purchased and sold at September 30, 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	$ 22,657,949	$ 184,612,611	$ 4,690,608	$ -	$ 27,348,557	$ 184,612,611
Production and intermediate term	53,290,898	17,355,780	-	-	53,290,898	17,355,780
Agribusiness	198,598,811	5,626,971	-	-	198,598,811	5,626,971
Communication	42,481,559	-	-	-	42,481,559	-
Energy	22,691,196	-	-	-	22,691,196	-
Water and wastewater	995,595	-	-	-	995,595	-
International	8,171,695	-	-	-	8,171,695	-
Total	$ 348,887,703	$ 207,595,362	$ 4,690,608	$ -	$ 353,578,311	$ 207,595,362

The Association is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were $23,682,305 and $12,567,416, at September 30, 2022, and December 31, 2021, respectively.

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

	September 30, 2022	December 31, 2021
Nonaccrual loans:		
Real estate mortgage	**$ 2,561,016**	$ 2,754,743
Production and intermediate term	**35,278**	43,928
Energy	**383,976**	433,265
Rural residential real estate	**3,569**	-
Total nonaccrual loans	**2,983,839**	3,231,936
Accruing restructured loans:		
Real estate mortgage	**110,984**	101,648
Total accruing restructured loans	**110,984**	101,648
Total nonperforming assets	**$ 3,094,823**	$ 3,333,584

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

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

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

	September 30, 2022	December 31, 2021
Real estate mortgage		
Acceptable	**99%**	99%
OAEM	**1%**	1%
Substandard/doubtful	**0%**	0%
	100%	100%
Production and intermediate term		
Acceptable	**100%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Loan to cooperatives		
Acceptable	**100%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Processing and marketing		
Acceptable	**96%**	96%
OAEM	**0%**	0%
Substandard/doubtful	**4%**	4%
	100%	100%
Farm-related business		
Acceptable	**100%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Communication		
Acceptable	**100%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Energy		
Acceptable	**98%**	98%
OAEM	**0%**	0%
Substandard/doubtful	**2%**	2%
	100%	100%
Water and wastewater		
Acceptable	**100%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Rural residential real estate		
Acceptable	**100%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
International		
Acceptable	**100%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Total loans		
Acceptable	**99%**	99%
OAEM	**0%**	0%
Substandard/doubtful	**1%**	1%
	100%	100%

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

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

September 30, 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**
Real estate mortgage	**$ 3,196,998**	**$ -**	**$ 3,196,998**	**$ 2,043,192,961**	**$ 2,046,389,959**
Production and intermediate term	**13,816**	**-**	**13,816**	**135,805,185**	**135,819,001**
Loans to cooperatives	**-**	**-**	**-**	**19,595,696**	**19,595,696**
Processing and marketing	**-**	**-**	**-**	**142,183,468**	**142,183,468**
Farm-related business	**-**	**-**	**-**	**60,995,602**	**60,995,602**
Communication	**-**	**-**	**-**	**42,503,239**	**42,503,239**
Energy	**-**	**-**	**-**	**22,840,777**	**22,840,777**
Water and wastewater	**-**	**-**	**-**	**994,989**	**994,989**
Rural residential real estate	**-**	**-**	**-**	**8,255,982**	**8,255,982**
International	**-**	**-**	**-**	**8,203,996**	**8,203,996**
Total	**$ 3,210,814**	**$ -**	**$ 3,210,814**	**$ 2,484,571,895**	**$ 2,487,782,709**

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
Real estate mortgage	$ 1,781,685	$ 254,381	$ 2,036,066	$ 1,866,270,924	$ 1,868,306,990
Production and intermediate term	43,928	-	43,928	132,484,449	132,528,377
Loans to cooperatives	-	-	-	7,263,969	7,263,969
Processing and marketing	-	-	-	143,937,399	143,937,399
Farm-related business	-	-	-	55,517,594	55,517,594
Communication	-	-	-	43,813,548	43,813,548
Energy	-	-	-	24,808,765	24,808,765
Water and wastewater	-	-	-	4,169,470	4,169,470
Rural residential real estate	8,659	-	8,659	10,026,912	10,035,571
International	-	-	-	8,183,447	8,183,447
Total	$ 1,834,272	$ 254,381	$ 2,088,653	$ 2,296,476,477	$ 2,298,565,130

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.

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

As of September 30, 2022, the total recorded investment of troubled debt restructured loans was $1,181,627, including $1,070,643 classified as nonaccrual and $110,984 classified as accrual, with no specific allowance for loan losses. There were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring as of September 30, 2022, and December 31, 2021.

There were no loans with troubled debt restructuring designation that occurred during the three and nine months ended September 30, 2022, and 2021, respectively.

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 restructurings where principal was forgiven that required a charge-off, at the modification date, for the three and nine months ended September 30, 2022, and 2021, respectively.

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

As of September 30, 2022, and 2021, respectively, the Association had no loans that met the accounting criteria as a troubled debt restructuring and that occurred within the previous 12 months of that year and for which there was a payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*		TDRs in Accrual Status	
	September 30, 2022	December 31, 2021	**September 30, 2022**	December 31, 2021	**September 30, 2022**	December 31, 2021
Real estate mortgage	**$ 1,181,627**	$ 1,292,226	**$ 1,070,643**	$ 1,190,578	**$ 110,984**	$ 101,648
Total	**$ 1,181,627**	$ 1,292,226	**$ 1,070,643**	$ 1,190,578	**$ 110,984**	$ 101,648

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

Additional impaired loan information is as follows:

	September 30, 2022			December 31, 2021		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	**$ 304,971**	**$ 304,971**	**$ 9,771**	$ -	$ -	$ -
Energy and water/wastewater	**383,976**	**383,976**	**100,554**	433,265	433,265	100,554
Total	**$ 688,947**	**$ 688,947**	**$ 110,325**	$ 433,265	$ 433,265	$ 100,554
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$2,367,029**	**$ 2,368,329**	**$ -**	$ 2,856,391	$ 2,857,730	$ -
Production and intermediate term	**35,278**	**35,278**	**-**	43,928	55,786	-
Rural residential real estate	**3,569**	**3,569**	**-**	-	-	-
Total	**$2,405,876**	**$ 2,407,176**	**$ -**	$ 2,900,319	$ 2,913,516	$ -
Total impaired loans:						
Real estate mortgage	**$2,672,000**	**$ 2,673,300**	**$ 9,771**	$ 2,856,391	$ 2,857,730	$ -
Production and intermediate term	**35,278**	**35,278**	**-**	43,928	55,786	-
Energy and water/wastewater	**383,976**	**383,976**	**100,554**	433,265	433,265	100,554
Rural residential real estate	**3,569**	**3,569**	**-**	-	-	-
Total	**$3,094,823**	**$ 3,096,123**	**$ 110,325**	$ 3,333,584	$ 3,346,781	$ 100,554

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

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2022		September 30, 2021		**September 30, 2022**		September 30, 2021	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	**$ 3,315**	**$ 4,651**	$ -	$ -	**$ 1,105**	**$ 4,651**	$ -	$ -
Energy and water/wastewater	**385,315**	**-**	477,640	-	**407,487**	**-**	399,203	115
Total	**$ 388,630**	**$ 4,651**	$ 477,640	$ -	**$ 408,592**	**$ 4,651**	$ 399,203	$ 115
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$2,336,094**	**$ 25,708**	$ 3,764,776	$ 10,132	**$2,409,554**	**$ 63,013**	$ 3,862,802	$ 41,945
Production and intermediate term	**37,233**	**-**	46,538	-	**39,698**	**-**	229,937	-
Rural residential real estate	**5,027**	**1,440**	-	1,440	**6,037**	**4,346**	-	4,418
Total	**$2,378,354**	**$ 27,148**	$ 3,811,314	$ 11,572	**$2,455,289**	**$ 67,359**	$ 4,092,739	$ 46,363
Total impaired loans:								
Real estate mortgage	**$2,339,409**	**$ 30,359**	$ 3,764,776	$ 10,132	**$2,410,659**	**$ 67,664**	$ 3,862,802	$ 41,945
Production and intermediate term	**37,233**	**-**	46,538	-	**39,698**	**-**	229,937	-
Energy and water/wastewater	**385,315**	**-**	477,640	-	**407,487**	**-**	399,203	115
Rural residential real estate	**5,027**	**1,440**	-	1,440	**6,037**	**4,346**	-	4,418
Total	**$2,766,984**	**$ 31,799**	$ 4,288,954	$ 11,572	**$2,863,881**	**$ 72,010**	$ 4,491,942	$ 46,478

A summary of changes in the allowance for credit losses and unfunded commitments and the ending balance of loans outstanding (including accrued interest) are as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Water and Wastewater	Rural Residential Real Estate	International	Total
Allowance for Credit Losses:									
Balance at June 30, 2022	$ 4,742,071	$ 397,117	$ 821,257	$ 95,862	$ 137,320	$ 3,398	$ 20,888	$ 20,455	$ 6,238,368
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	-	6,790	1,263	-	-	-	-	-	8,053
(Reversal of) Provision for credit losses	31,892	(3,296)	594	(3,472)	(1,838)	(1,558)	(1,141)	1,349	22,530
Transfer from reserve on unfunded commitments	-	(11,617)	(7,837)	(280)	139	135	-	(1,323)	(20,783)
Balance at September 30, 2022	$ 4,773,963	$ 388,994	$ 815,277	$ 92,110	$ 135,621	$ 1,975	$ 19,747	$ 20,481	$ 6,248,168
Balance at December 31, 2021	$ 5,552,628	$ 468,317	$ 970,569	$ 122,826	$ 151,869	$ 14,337	$ 29,682	$ 25,316	$ 7,335,544
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	-	16,008	2,604	-	-	-	-	-	18,612
(Reversal of) Provision for credit losses	(778,707)	(99,188)	(166,459)	(30,591)	(16,378)	(12,497)	(9,935)	(3,485)	(1,117,240)
Transfer from reserve on unfunded commitments	42	3,857	8,563	(125)	130	135	-	(1,350)	11,252
Balance at September 30, 2022	$ 4,773,963	$ 388,994	$ 815,277	$ 92,110	$ 135,621	$ 1,975	$ 19,747	$ 20,481	$ 6,248,168
Ending Balance:									
Individually evaluated for impairment	$ 9,771	$ -	$ -	$ -	$ 100,554	$ -	$ -	$ -	$ 110,325
Collectively evaluated for impairment	4,764,192	388,994	815,277	92,110	35,067	1,975	19,747	20,481	6,137,843
Balance at September 30, 2022	$ 4,773,963	$ 388,994	$ 815,277	$ 92,110	$ 135,621	$ 1,975	$ 19,747	$ 20,481	$ 6,248,168
Balance at June 30, 2021	$ 5,360,516	$ 533,388	$ 1,071,663	$ 126,109	$ 196,114	$ 15,607	$ 33,156	$ 32,812	$ 7,369,365
Charge-offs	-	(20,889)	-	-	-	-	-	-	(20,889)
Recoveries	-	420,567	570	-	-	-	-	-	421,137
(Reversal of) Provision for credit losses	97,484	(459,874)	(33,314)	(12,682)	(3,638)	(218)	270	(5,353)	(417,325)
Transfer from reserve on unfunded commitments	-	(12,937)	886	-	(170)	-	-	(511)	(12,732)
Balance at September 30, 2021	$ 5,458,000	$ 460,255	$ 1,039,805	$ 113,427	$ 192,306	$ 15,389	$ 33,426	$ 26,948	$ 7,339,556
Balance at December 31, 2020	$ 6,034,076	$ 614,838	$ 1,084,089	$ 150,793	$ 93,532	$ 21,921	$ 45,238	$ -	$ 8,044,487
Charge-offs	-	(20,889)	-	-	-	-	-	-	(20,889)
Recoveries	-	426,899	1,880	-	-	-	-	-	428,779
(Reversal of) Provision for credit losses	(576,283)	(576,219)	(56,867)	(37,967)	98,287	(6,539)	(11,812)	29,476	(1,137,924)
Transfer from reserve on unfunded commitments	207	15,626	10,703	601	487	7	-	(2,528)	25,103
Balance at September 30, 2021	$ 5,458,000	$ 460,255	$ 1,039,805	$ 113,427	$ 192,306	$ 15,389	$ 33,426	$ 26,948	$ 7,339,556
Ending Balance:									
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 121,915	$ -	$ -	$ -	$ 121,915
Collectively evaluated for impairment	5,458,000	460,255	1,039,805	113,427	70,391	15,389	33,426	26,948	7,217,641
Balance at September 30, 2021	$ 5,458,000	$ 460,255	$ 1,039,805	$ 113,427	$ 192,306	$ 15,389	$ 33,426	$ 26,948	$ 7,339,556

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Water and Wastewater	Rural Residential Real Estate	International	Total
Recorded Investments in Loans Outstanding (including accrued interest):									
Ending Balance at September 30, 2022	$ 2,046,389,959	$ 135,819,001	$ 222,774,766	$ 42,503,239	$ 22,840,777	$ 994,989	$ 8,255,982	$ 8,203,996	$ 2,487,782,709
Individually evaluated for impairment	$ 2,672,000	$ 35,278	$ -	$ -	$ 383,976	$ -	$ 3,569	$ -	$ 3,094,823
Collectively evaluated for impairment	$ 2,043,717,959	$ 135,783,723	$ 222,774,766	$ 42,503,239	$ 22,456,801	$ 994,989	$ 8,252,413	$ 8,203,996	$ 2,484,687,886
Ending Balance at December 31, 2021	$ 1,868,306,990	$ 132,528,377	$ 206,718,962	$ 43,813,548	$ 24,808,765	$ 4,169,470	$ 10,035,571	$ 8,183,447	$ 2,298,565,130
Individually evaluated for impairment	$ 2,856,391	$ 43,928	$ -	$ -	$ 433,265	$ -	$ -	$ -	$ 3,333,584
Collectively evaluated for impairment	$ 1,865,450,599	$ 132,484,449	$ 206,718,962	$ 43,813,548	$ 24,375,500	$ 4,169,470	$ 10,035,571	$ 8,183,447	$ 2,295,231,546

NOTE 4 —LEASES:

The components of lease expense were as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Operating lease cost	**$ 151,236**	$ 148,901	**$ 455,392**	$ 451,904
Net lease cost	**$ 151,236**	$ 148,901	**$ 455,392**	$ 451,904

Other information related to leases was as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	**$ 151,415**	$ 147,868	**$ 446,530**	$ 429,913

Lease term and discount rate are as follows:

	September 30, 2022	December 31, 2021
Weighted average remaining lease term in years		
Operating leases	**2.6**	2.8
Weighted average discount rate		
Operating leases	**2.5%**	2.5%

Future minimum lease payments under non-cancellable leases as of September 30, 2022, were as follows:

	Operating Leases
2022 (excluding the nine months ended 9/30/22)	$ 153,326
2023	593,291
2024	349,515
2025	138,489
2026	86,838
Total	$ 1,321,459

NOTE 5 — CAPITAL:

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

Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Requirements Including Capital Conservation Buffers	As of September 30, 2022
Common equity tier 1 ratio	7.00%	15.02%
Tier 1 capital ratio	8.50%	15.02%
Total capital ratio	10.50%	15.27%
Permanent capital ratio	7.00%	15.06%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.00%	15.17%
UREE leverage ratio	1.50%	14.93%

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

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

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted 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-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- 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 minimum regulatory requirements, including the capital conservation and leverage buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary bonus payments to senior officers are restricted or prohibited without prior FCA approval.

The components of the Association's risk-adjusted capital, based on 90 day average balances, were as follows at September 30, 2022:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 248,605,479	$ 248,605,479	$ 248,605,479	$ 248,605,479
Paid-in capital	91,343,553	91,343,553	91,343,553	91,343,553
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	5,900,624	5,900,624	5,900,624	5,900,624
Nonqualified allocated equities not subject to retirement	65,733,966	65,733,966	65,733,966	65,733,966
Allowance for credit losses and reserve for credit losses subject to certain limitations	-	-	6,361,780	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(34,509,049)	(34,509,049)	(34,509,049)	(34,509,049)
	$ 377,074,573	$ 377,074,573	$ 383,436,353	$ 377,074,573
Denominator:				
Risk-adjusted assets excluding allowance	$ 2,544,955,087	$ 2,544,955,087	$ 2,544,955,087	$ 2,544,955,087
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(34,509,049)	(34,509,049)	(34,509,049)	(34,509,049)
Allowance for credit losses	-	-	-	(6,267,719)
	$ 2,510,446,038	$ 2,510,446,038	$ 2,510,446,038	$ 2,504,178,319

The components of the Association's non-risk-adjusted capital, based on 90 day average balances, were as follows at September 30, 2022:

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	$ 248,605,479	$ 248,605,479
Paid-in capital	91,343,553	91,343,553
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	5,900,624	-
Nonqualified allocated equities not subject to retirement	65,733,966	65,733,966
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(34,509,049)	(34,509,049)
	$ 377,074,573	$ 371,173,949
Denominator:		
Total Assets	$ 2,528,513,638	$ 2,528,513,638
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(42,250,279)	(42,250,279)
	$ 2,486,263,359	$ 2,486,263,359

The Association's accumulated other comprehensive loss relates entirely to its nonpension other postretirement benefits. The following table summarizes the change in accumulated other comprehensive loss for the nine months ended September 30:

	2022	2021
Accumulated other comprehensive loss at January 1	$ (954,347)	$ (1,060,093)
Amortization of prior service credit included in salaries and employee benefits	(19,885)	(19,885)
Amortization of actuarial loss included in salaries and employee benefits	43,366	51,970
Other comprehensive income, net of tax	23,481	32,085
Accumulated other comprehensive loss at September 30	$ (930,866)	$ (1,028,008)

NOTE 6 — INCOME TAXES:

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

As of September 30, 2022, the deferred income tax valuation allowance was $10,123,941.

NOTE 7 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 15 to the 2021 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

September 30, 2022	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Assets held in nonqualified benefit trusts	**$135,602**	**$ -**	**$ -**	**$ 135,602**
Total assets	**$135,602**	**$ -**	**$ -**	**$ 135,602**

December 31, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 205,962	$ -	$ -	$ 205,962
Total assets	$ 205,962	$ -	$ -	$ 205,962

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

September 30, 2022	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans	**$ -**	**$ -**	**$578,622**	**$ 578,622**

December 31, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ 332,710	$ 332,710

Valuation Techniques

As more fully discussed in Note 2 to the 2021 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see Notes to the 2021 Annual Report to Stockholders.

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. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

Fair Value of Concessions Granted

The Association has recorded amounts related to the fair value of concessions granted for certain loans related to the breach of Association policies in 2016 and 2017. These amounts are netted against the unpaid principal balance of the related loans similar to a discount. The concessions granted were either through the refinancing of a relationship or as a result of acceptance of rates and terms previously negotiated, which were more favorable than market terms and rates. The fair value of the concessions are based on the expected future cash flows under the new contractual terms, discounted at a market interest rate. The fair value of the concessions is amortized into interest income.

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 8 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the nine months ended September 30:

	Other Benefits	
	2022	2021
Service cost	**$ 61,957**	$ 53,044
Interest cost	**127,874**	133,600
Amortization of prior service credits	**(19,885)**	(19,885)
Amortization of net actuarial loss	**43,366**	40,507
Net periodic benefit cost	**$ 213,312**	$ 207,266

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2022, was $5,552,487, and is included in other liabilities on the balance sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "other components of net periodic postretirement benefit cost" in the income statement. The Association previously disclosed in its financial statements for the year ended December 31, 2021, that it expects to contribute $190,113 to the District's DC plan in 2022.

The structure of the District's DB plan, which is noncontributory and benefits are based on salary and years of service, is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the DB plan as an expense. The Association has contributed $520,571 to fund the DB plan for 2022. As of September 30, 2022, the Association has expensed and recognized $390,428.

NOTE 9 — COMMITMENTS AND CONTINGENT LIABILITIES:

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

NOTE 10 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through November 9, 2022, which is the date the financial statements were issued or available to be issued.

There were no subsequent events requiring disclosure as of November 9, 2022.