



# CENTRAL TEXAS



FARM CREDIT

**2023 ANNUAL REPORT**

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# CEO Message

## Dear Stockholders,

As many of you know, Jimmy Chambers retired as CEO on June 30, 2023, after over 17 years of service to this Association. I was humbled and honored to be named his successor, and I will do my best to live up to the high standard that he set. That standard means delivering maximum value to our stockholders while staying focused on our mission and maintaining the strong financial condition of our Association. With the help of our board of directors, senior leadership team and dedicated employees, I believe we met that standard in 2023.



*Former Central Texas Farm Credit CEO, Jimmy Chambers, pictured fourth from left with CTFC board of directors.*

Contrary to our assumptions heading into 2023, the U.S. and Texas economies performed above expectations, which in turn resulted in a successful year for Central Texas Farm Credit. Though farmers and ranchers in our territory faced their share of challenges including high inflation, high interest rates and dry weather for most of the year, we maintained excellent credit quality and low loan delinquencies while growing our loan portfolio by a little over 8 percent. True to our cooperative model, we return as much of our income to you as we can in the form of a cash patronage. Based on the Association's strong earnings and financial condition in 2023, the board declared another record patronage refund of \$8.6 million. We understand that the best way to create value for our members is to put money in their pockets!

Now that we are officially over the hump with our loan origination and accounting systems upgrade, we are honing our processes to find the most efficient way to provide excellent service to our members. We will continue to look for better ways to serve you through technology, educational opportunities, and access to services. As part of this effort, we will be forming a member advisory council in 2024 to ensure that we are providing the services you expect and deserve from us.

Thank you for choosing Central Texas Farm Credit as your lending partner. We look forward to growing with you and your operation into the future. Please continue to refer your friends and family. Word of mouth is our most cost-efficient marketing tool, and, as we have hopefully proven with our patronage program, our success is your success.

Regards,

**Zach May**  
Chief Executive Officer



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**Our mission is to partner with  
agricultural producers and  
rural communities by  
providing a reliable source of  
credit and financial support.**

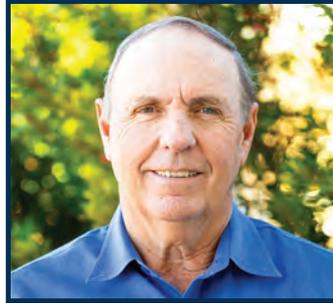


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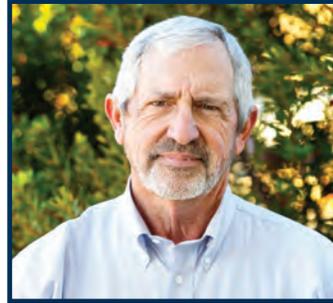
# Board of Directors



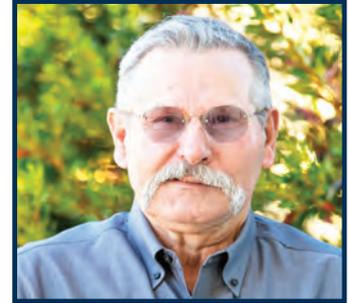
**ROBBY HALFMANN**  
*Chairman*



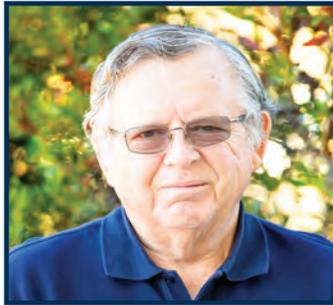
**KENNETH HARVICK**  
*Vice-chairman*



**MIKE FINLAY**  
*Board member*



**PHILIP HINDS**  
*Board member*



**BURL LOWERY**  
*Board member*



**STEVEN LEHRMANN**  
*Board member*



**GERALD RODGERS**  
*Board member*

# Senior Officers



**ZACH MAY**  
*Chief Executive Officer*



**TRAVIS MCKINNEY**  
*EVP CLO & COO*



**JIM ED FIELD**  
*Chief Credit Officer*



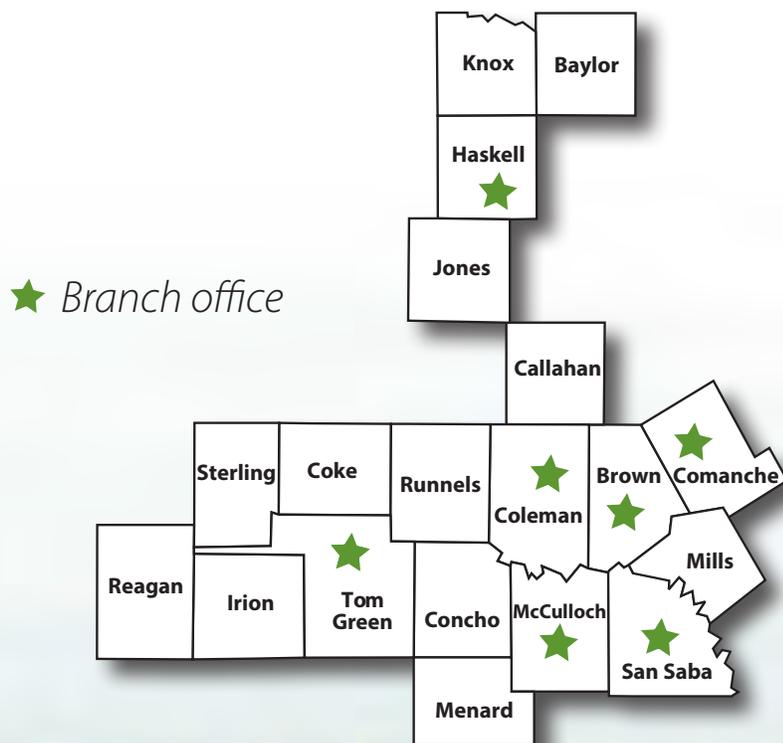
**KEITH PRATER**  
*Chief Financial Officer*

# Key Performance Trends

	2023	2022	2021
<b>Loans</b> (in millions)	<b>\$700.9</b>	\$647.9	\$634.9
<b>Net Income</b> (in millions)	<b>\$11.2</b>	\$12.8	\$11.1
<b>Shareholder Equity</b> (in millions)	<b>\$127.1</b>	\$124.4	\$119.7
<b>Percent of loans in good standing</b>	<b>97.3%</b>	98.6%	98.2%
<b>Percent of new loans to Young, Beginning, &amp; Small producers</b>	<b>83%</b>	78%	80%

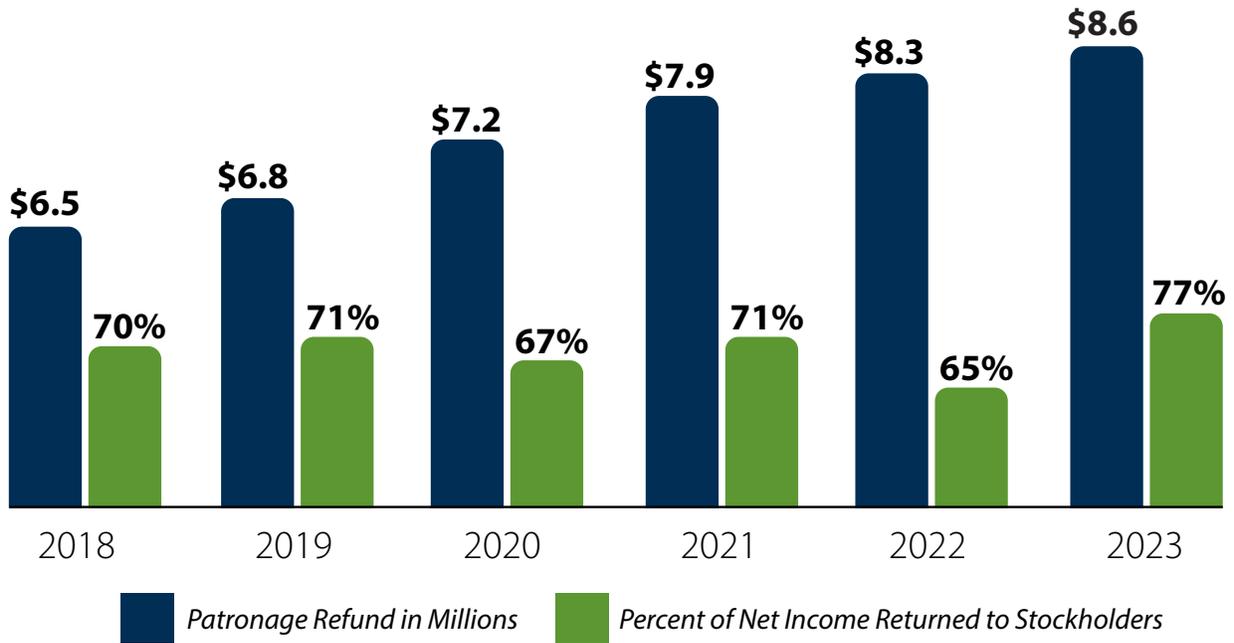
## CTFC Territory

We service 19 counties across Central & West Texas, which cover over 19,000 square miles.



# Patronage

We are proud to return a record **\$8.6 million** patronage refund in 2024, thanks to our strong financial performance in 2023.



# Committed to Agriculture and our Rural Communities

Central Texas Farm Credit is committed to serving agriculture and our rural communities. We strive to be a good corporate citizen and community contributor. In 2023, we donated \$83,500 to support Texas A&M AgriLife extension events, veteran programs, local rodeos, chambers of commerce, hunting festivals, dairy, and commodity events. We also participated in the Farm Credit Fly-In in Washington, D.C.



## Meet Cash-Ewe

Cash-Ewe, part of Downtown San Angelo's Sheep Spectacular statues, is proudly displayed in front of the San Angelo branch office. Cash-Ewe represents the connection to the San Angelo community, the Concho Valley and the agricultural industry.

One side of the fiberglass sculpted sheep represents the farming community in the San Angelo area with pictures of cotton and wheat fields. The other side represents the ranching community with a picture of a cow/calf pair near a windmill and stock tank.



# The Next Generation of Ag Leaders

Central Texas Farm Credit is honored to support the next generation of agricultural leaders. In 2023, we donated \$89,700 to youth events such as local stock shows, ag mechanics shows and scholarship donations.



## 2023 Scholarship Recipients



**RILEY CARVER**  
*Avoca, Texas*



**RHEANNA KLEMAN**  
*San Angelo, Texas*



**SYDNEY PARTIN**  
*Priddy, Texas*



**KOURTNEY PEACOCK**  
*May, Texas*



**BRITNI ROBERTS**  
*Goldthwaite, Texas*

### Supporting the Hill Country Youth Commercial Heifer Show

Central Texas Farm Credit awarded 103 participants a jacket at the 2023 Hill Country Youth Commercial Heifer Show. The program allows youths in the Texas Hill Country area to raise and sell commercial heifers, where they gain real-world experience in the cattle industry. Additionally, the program requires record-keeping, budgeting and hard work. Participants are responsible for raising and preparing a set of three market-ready heifers.



**Central Texas Farm Credit, ACA**

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## REPORT OF MANAGEMENT

The consolidated financial statements of Central Texas Farm Credit, 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 PricewaterhouseCoopers LLP, 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.



J. Zachary May, Chief Executive Officer

*March 8, 2024*



Robby A. Halfmann, Chairman, Board of Directors

*March 8, 2024*



Keith Prater, Chief Financial Officer

*March 8, 2024*

## REPORT OF AUDIT COMMITTEE

The Audit Committee (Committee) is comprised of Burl D. Lowery, Gerald Rodgers, Robby A. Halfmann, Kenneth D. Harvick, Mike Finlay, Philip W. Hinds and Steven Lehrmann. In 2023, 11 Committee meetings were held. The Committee oversees the scope of Central Texas Farm Credit, 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 Central Texas Farm Credit, ACA's website. The Committee approved the appointment of PricewaterhouseCoopers LLP (PwC) for 2023.

Management is responsible for Central Texas Farm Credit, 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. PwC is responsible for performing an independent audit of Central Texas Farm Credit, 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 Central Texas Farm Credit, ACA's audited consolidated financial statements for the year ended December 31, 2023, with management and PwC. The Committee also reviews with PwC the matters required to be discussed by authoritative guidance "The Auditor's Communication With Those Charged With Governance," and both PwC's and Central Texas Farm Credit, ACA's internal auditors directly provide reports on significant matters to the Committee.

The Committee discussed with PwC its independence from Central Texas Farm Credit, ACA. The Committee also reviewed the nonaudit services provided by PwC and concluded that these services were not incompatible with maintaining the independent accountant's independence. The Committee has discussed with management and PwC 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 Central Texas Farm Credit, ACA's Annual Report to Stockholders for the year ended December 31, 2023.

### Audit Committee Members

Burl D. Lowery, CPA, Chairman  
Gerald Rodgers, CPA, Vice Chairman  
Robby A. Halfmann  
Kenneth D. Harvick  
Mike Finlay  
Philip W. Hinds  
Steven Lehrmann

*March 8, 2024*

**CENTRAL TEXAS FARM CREDIT, ACA**

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
<b><u>Balance Sheet Data</u></b>					
<u>Assets</u>					
Cash	\$ 5	\$ 1	\$ 3	\$ 5	\$ 4
Loans	693,935	640,374	631,826	583,419	532,822
Less: allowance for credit losses on loans	1,777	1,427	1,649	1,246	1,199
Net loans	692,158	638,947	630,177	582,173	531,623
Investment in and receivable from the Farm Credit Bank of Texas	12,644	13,216	10,372	9,657	9,441
Other assets	15,087	13,052	12,085	10,511	10,115
Total assets	<u>\$ 719,894</u>	<u>\$ 665,216</u>	<u>\$ 652,637</u>	<u>\$ 602,346</u>	<u>\$ 551,183</u>
<u>Liabilities</u>					
Obligations with maturities of one year or less	\$ 13,174	\$ 12,951	\$ 12,889	\$ 12,265	\$ 10,993
Obligations with maturities greater than one year	579,575	527,858	520,021	473,590	427,049
Total liabilities	<u>592,749</u>	<u>540,809</u>	<u>532,910</u>	<u>485,855</u>	<u>438,042</u>
<u>Members' Equity</u>					
Capital stock and participation certificates	\$ 2,004	\$ 2,025	\$ 2,118	\$ 2,209	\$ 2,236
Unallocated retained earnings	124,922	122,115	117,664	114,499	111,004
Accumulated other comprehensive income (loss)	219	267	(55)	(217)	(99)
Total members' equity	<u>127,145</u>	<u>124,407</u>	<u>119,727</u>	<u>116,491</u>	<u>113,141</u>
Total liabilities and members' equity	<u>\$ 719,894</u>	<u>\$ 665,216</u>	<u>\$ 652,637</u>	<u>\$ 602,346</u>	<u>\$ 551,183</u>
<b><u>Statement of Income Data</u></b>					
Net interest income	\$ 19,926	\$ 18,294	\$ 16,939	\$ 15,725	\$ 15,554
(Provision for) reversal of credit losses	(652)	113	(383)	(451)	(674)
Income from the Farm Credit Bank of Texas	1,928	3,725	3,387	2,802	2,345
Other noninterest income	119	225	529	783	262
Noninterest expense	(10,160)	(9,606)	(9,366)	(8,164)	(7,852)
Net income	<u>\$ 11,161</u>	<u>\$ 12,751</u>	<u>\$ 11,106</u>	<u>\$ 10,695</u>	<u>\$ 9,635</u>
<b><u>Key Financial Ratios for the Year</u></b>					
Return on average assets	1.6%	1.9%	1.8%	1.9%	1.8%
Return on average members' equity	8.6%	10.2%	9.2%	9.3%	8.5%
Net interest income as a percentage of average earning assets	3.0%	2.8%	2.8%	2.8%	3.0%
Net charge-offs (recoveries) as a percentage of average loans	0.0%	0.0%	0.0%	0.1%	0.1%

**CENTRAL TEXAS FARM CREDIT, ACA**

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
<b><u>Key Financial Ratios at Year End*</u></b>					
Members' equity as a percentage of total assets	<b>17.7%</b>	18.7%	18.3%	19.3%	20.5%
Debt as a percentage of members' equity	<b>466.2%</b>	434.7%	445.1%	417.1%	387.2%
Allowance for credit losses on loans as a percentage of loans	<b>0.3%</b>	0.2%	0.3%	0.2%	0.2%
Common equity tier 1 ratio	<b>17.0%</b>	17.1%	17.2%	18.3%	19.2%
Tier 1 capital ratio	<b>17.0%</b>	17.1%	17.2%	18.3%	19.2%
Total capital ratio	<b>17.2%</b>	17.3%	17.5%	18.5%	19.4%
Permanent capital ratio	<b>17.0%</b>	17.1%	17.3%	18.3%	19.2%
Tier 1 leverage ratio	<b>17.7%</b>	17.8%	17.9%	19.2%	20.3%
UREE leverage ratio	<b>17.4%</b>	17.5%	19.0%	20.2%	21.3%
<b><u>Net Income Distribution</u></b>					
Cash dividends	<b>\$ 8,307</b>	\$ 7,900	\$ 7,200	\$ 6,800	\$ 6,500

\*The Association's ratios remained well above the regulatory minimums, including the conservation and leverage buffers, as of December 31, 2023. For more information, see Note 9, "Members Equity," in the accompanying consolidated financial statements.

**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 Central Texas Farm Credit, ACA, including its wholly owned subsidiaries, Central Texas, PCA and Central Texas Land Bank, FLCA (collectively called “the Association”) for the years ended December 31, 2023, 2022, and 2021, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying consolidated 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 expectations and predictions due to a number of risks and uncertainties, many of which are beyond the Association’s 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 infrastructure, international, and farm-related business sectors, as well as in the general economy that can affect the availability of off-farm sources of income;
- weather-related, food safety, disease-related, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- disruption of operations or disclosures of confidential information as a result of cybersecurity incidents;
- changes in United States government support of the agricultural industry and the 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
- credit, interest rate, prepayment, and liquidity risk inherent in lending activities.

**Significant Events:**

2023

In December 2023, the Association received a direct loan patronage of \$1,447,633 from the Farm Credit Bank of Texas (the Bank), representing 26.3 basis points on the average daily balance of the Association’s direct loan with the Bank. During 2023, the Association received an additional patronage payment of \$405,010, based on the Association’s stock investment in the Bank. Also, the Association received a participations patronage of \$75,284 from the Bank, representing 70 basis points on the Association’s average balance of participations in the Bank’s patronage pool program.

In June 2023, Jimmy Chambers retired as chief executive officer of the Association. The Board appointed Zach May as chief executive officer, effective July 1, 2023.

In March 2023, a patronage refund of \$8,307,074 was distributed to the Association’s borrowers. The patronage refund was declared by the board of directors in December 2022, and the amount was based on the Association’s 2022 operating results.

2022

In December 2022, the Association received a direct loan patronage of \$3,401,142 from the Bank, representing 64 basis points on the average daily balance of the Association’s direct loan with the Bank. During 2022, the Association received an additional patronage payment of \$241,454, based on the Association’s stock investment in the Bank. Also, the Association received a capital markets patronage of \$82,044 from the Bank, representing 78 basis points on the Association’s average balance of participations in the Bank’s patronage pool program.

In July 2022, Boyd J. Chambers, president and chief executive officer of the Association, informed the board of directors of his decision to retire in mid-2023. Upon his announcement, the board placed in motion a plan to identify and evaluate candidates and appoint a new chief executive officer. In December 2022, Zach May was named chief executive officer effective July 1, 2023. Mr. May has 14 years of experience with the Association and has served as chief operating officer since 2011.

In March 2022, a patronage refund of \$7,900,000 was distributed to the Association's borrowers. The patronage refund was declared by the board of directors in December 2021, and the amount was based on the Association's 2021 operating results.

### 2021

In December 2021, the Association received a direct loan patronage of \$3,139,643 from the Bank, representing 63 basis points on the average daily balance of the Association's direct loan with the Bank. During 2021, the Association received an additional patronage payment of \$171,285 from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a capital markets patronage of \$75,968 from the Bank, representing 76 basis points on the Association's average balance of participations in the Bank's patronage pool program.

In March 2021, a patronage refund of \$7,241,217 was distributed to the Association's borrowers. The patronage refund was declared by the board of directors in December 2020, and the amount was based on the Association's 2020 operating results.

### **Adoption of New Accounting Standard**

Effective January 1, 2023, the Association adopted the current expected credit losses (CECL) accounting guidance that replaced the incurred loss guidance. CECL established a single allowance framework for financial assets carried at amortized cost and certain off-balance sheet credit exposures. CECL requires management to consider in its estimate of allowance for credit losses (ACL) relevant historical events, current conditions, and reasonable and supportable forecasts that affect the collectability of the assets. The adoption of this guidance resulted in a cumulative effect transition adjustment at January 1, 2023, reflecting a decrease in the Association's ACL of \$253,393 on outstanding loans and unfunded commitments and a corresponding increase in retained earnings.

Refer to Note 2, "Summary of Significant Accounting Policies," in the accompanying consolidated financial statements for disclosures of additional accounting pronouncements that may impact the Association's consolidated financial position and results of operations and for critical accounting policies.

### **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, SOFR-based, and prime-based interest rates. Loan maturities range from one to 40 years, with annual operating loans comprising the majority of the commercial loans and 20- to 30-year maturities making up 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 \$693,934,819, \$640,374,007, and \$631,826,004 as of December 31, 2023, 2022, and 2021, respectively, is described more fully in detailed tables in Note 3, "Loans and Allowance for Credit Losses," in the accompanying consolidated financial statements.

### **Territory Conditions:**

The local economies in our chartered territory remained strong in 2023. Real estate values stabilized, with residential and land sales slowing some due to rising costs of construction and higher interest rates. The majority of the Association's new loans made during the past number of years have been to absentee landowners with diverse income sources looking for a place for a small agricultural operation or recreational use. As a result, the Association has a diversified portfolio that is not heavily dependent on agricultural income. Even those borrowers who are primarily agricultural producers typically have outside income from a variety of sources including spousal employment, part-time

employment and investments. The above is reflected in the Association's sound credit quality and small number of delinquencies.

2023 proved to be another challenging year for most crop and livestock producers in the area. All areas of our territory received below average rainfall. The year started with the majority of our territory in moderate to severe drought, with a couple of counties in the southeastern portion of our territory experiencing extreme drought. Conditions continued to worsen through spring and summer, due to a persistent La Niña pattern, with drought conditions peaking in mid-September. At that time, most of our territory was in severe drought, with some areas experiencing extreme and exceptional drought. By fall, the weather finally transitioned toward an El Niño pattern, giving way to fall and winter rains that provided much-needed relief. Most of the territory ended the year experiencing no drought, with some portions of our territory experiencing abnormally dry conditions. Generally, pasture conditions were considered poor to very poor during the year due to the lack of seasonal rainfall.

The USDA's "Crop Progress" report for the last week of November 2023 reported 74 percent of cotton acres in Texas were harvested, which was slightly ahead of the five-year average of 73 percent. According to USDA reports released in December 2023, 3.55 million harvested upland cotton acres were forecast for Texas, as compared to 2.00 million acres in 2022 and 5.57 million acres in 2021. Most of the Texas cotton crop was lost due to the persistent drought. Prices received for Texas upland cotton in November 2023 were reported at 68.6 cents per pound, down approximately 11% from 77.1 cents per pound last year.

USDA also reported 5.9 million acres of current crop winter wheat was planted in Texas, with 78 percent emerged at the end of November 2023, which is slightly behind the five-year average of 80 percent. Crop conditions at the end of November 2023 were improved from 2022, with 46 percent of the Texas crop in good or excellent condition, 35 percent in fair condition, and 19 percent in poor to very poor condition. Prices received for Texas winter wheat in November 2023 were \$6.12 per bushel, a significant decrease from \$9.09 per bushel the prior year.

According to USDA, the price received for beef cattle in Texas was \$1.80 per pound in November 2023, as compared to \$1.51 per pound in 2022 and \$1.29 in 2021. Beef prices are expected to remain high due to low cattle inventory numbers. The USDA "Cattle on Feed" report dated December 2023, stated cattle and calves on feed, in Texas feedlots with capacities exceeding 1,000 head, totaled 2.90 million, a slight increase from 2.81 million head reported the previous year.

The USDA "Milk Production" report released in December 2023, stated Texas milk production totaled approximately 1.32 billion pounds through November, a slight decrease from 1.35 billion pounds in 2022. The number of milk cows in Texas also decreased from 653,000 head to 635,000 head. However, milk production per cow increased from 2,065 pounds per cow to 2,075 pounds per cow. USDA cites the price received for all milk in Texas in November 2023 was \$21.80 dollars per cwt, as compared to \$25.80 per cwt in 2022. Most of our borrowers continue to do well right now, but many remain cautious due to volatile commodity markets.

### **Problem Loans:**

#### 2023

During 2023, the Association recorded \$3,711 in recoveries and \$187,529 in charge-offs.

#### 2022

During the first three quarters of 2022, the Association recorded no recoveries or charge-offs. During the fourth quarter of 2022, no recoveries were recorded, but the Association did record a charge-off in the amount of \$97,091.

#### 2021

During 2021, the Association recorded no recoveries or charge-offs.

### **Purchase and Sales of Loans:**

During 2023, 2022, and 2021, the Association was participating in loans with other lenders. As of December 31, 2023, 2022, and 2021, these participations totaled \$165,951,533, \$136,938,584, and \$110,767,515, or 23.9 percent, 21.4 percent, and 17.5 percent of loans, respectively. The Association has also sold participations of \$32,402,001, \$27,171,688, and \$23,580,309 as of December 31, 2023, 2022, and 2021, respectively.

## Risk Exposure:

Nonperforming assets include nonaccrual loans, accruing loans that are 90 days or more past due, and other property owned, net.

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

	2023		2022		2021	
	Amount	%	Amount	%	Amount	%
Nonaccrual loans	\$ 2,106,070	100.0%	\$ 2,847,641	100.0%	\$ 1,860,250	100.0%
Accruing loans 90 days or more past due	-	0.0%	-	0.0%	-	0.0%
Other property owned, net	-	0.0%	-	0.0%	-	0.0%
Nonperforming assets	<u>\$ 2,106,070</u>	<u>100.0%</u>	<u>\$ 2,847,641</u>	<u>100.0%</u>	<u>\$ 1,860,250</u>	<u>100.0%</u>

At December 31, 2023, 2022, and 2021, nonperforming loans were \$2,106,070, \$2,847,641, and \$1,860,250, representing 0.3 percent, 0.4 percent, and 0.3 percent of loan volume, respectively.

The Association is not affected to any material extent by seasonal characteristics. This is due in part to the fact that true production loans make up a small part of the Association's total loan portfolio and in part to the diversification in the portfolio, both in geographic distribution and in sources of repayment. Because the Association's portfolio is diverse and contains few large loans, it is not dependent upon any single customer, commodity, or industry. No loans in the portfolio have any inherent special features that would have a material impact on the expected collectability of said loans.

## Allowance for Credit Losses on Loans:

Effective January 1, 2023, the Association adopted CECL. Within CECL, the Association employs a disciplined process and methodology to establish its allowance for credit losses on loans that has two basic components: first, an asset-specific component involving individual loans that do not share risk characteristics with other loans and the measurement of expected credit losses for such individual loans; and second, a pooled component for estimated expected credit losses for pools of loans that share similar risk characteristics.

Asset-specific loans are generally collateral-dependent loans (including those loans for which foreclosure is probable) and nonaccrual loans. For an asset-specific loan, expected credit losses are measured as the difference between the amortized cost basis in the loan and the present value of expected future cash flows discounted at the loan's effective interest rate except that, for collateral-dependent loans, credit loss is measured as the difference between the amortized cost basis in the loan and the fair value of the underlying collateral. The fair value of the collateral is adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral. In accordance with the Association's appraisal policy, the fair value of collateral-dependent loans is based upon independent third-party appraisals or on collateral valuations prepared by in-house appraisers. When an updated appraisal or collateral valuation is received, management reassesses the need for adjustments to the loan's expected credit loss measurements and, where appropriate, records an adjustment. If the calculated expected credit loss is determined to be permanent, fixed, or non-recoverable, the credit loss portion of the loan will be charged off against the allowance for credit losses.

In estimating the component of the allowance for credit losses on loans that share common risk characteristics, loans are evaluated collectively and segregated into loan pools considering the risk associated with the specific pool. Relevant risk characteristics include loan type, commodity, credit quality rating, delinquency category or business segment, or a combination of these classes. The allowance is determined based on a quantitative calculation of the expected life-of-loan loss percentage for each loan category by considering the probability of default, based on the migration of loans from performing to loss by credit quality rating or delinquency buckets using historical life-of-loan analysis periods for loan types, and the severity of loss, based on the aggregate net lifetime losses incurred per loan pool.

Prior to January 1, 2023, the allowance for credit losses was maintained at a level considered adequate to provide for probable losses existing in and inherent in the loan portfolio. The allowance was based on a periodic evaluation of the loan portfolio in which numerous factors were considered, including economic conditions, collateral values, borrowers'

financial conditions, loan portfolio composition, and prior loan loss experience. The allowance for credit losses encompassed various judgments, evaluations, and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity would cause these various judgments, evaluations, and appraisals to change over time. Management considered a number of factors in determining and supporting the levels of the allowances for credit losses, which included, but were not limited to, the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects, and weather-related influences.

Based upon ongoing risk assessment and the procedures outlined above, the allowance for credit losses on loans of \$1,776,641, \$1,426,947, and \$1,648,857 at December 31, 2023, 2022, and 2021, respectively, is considered adequate by management to compensate for losses in the loan portfolio at such dates, based on historical loss history.

## Results of Operations:

The Association's net income for the year ended December 31, 2023, was \$11,160,916 as compared to \$12,750,883 for the year ended December 31, 2022, reflecting a decrease of \$1,589,967, or 12.5 percent. The Association's net income for the year ended December 31, 2021, was \$11,106,059. Net income increased \$1,644,824, or 14.8 percent, in 2022 versus 2021.

Net interest income for 2023, 2022, and 2021 was \$19,925,631, \$18,293,601, and \$16,938,640, respectively, reflecting increases of \$1,632,030, or 8.9 percent, for 2023 versus 2022 and \$1,354,961, or 8.0 percent, for 2022 versus 2021. 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:

	2023		2022		2021	
	Average Balance	Interest	Average Balance	Interest	Average Balance	Interest
Loans	\$ 662,581,242	\$ 40,529,175	\$ 642,665,205	\$ 31,496,806	\$ 602,124,178	\$ 26,744,403
Interest-bearing liabilities	549,980,205	20,603,544	533,194,357	13,203,205	494,715,142	9,805,763
Impact of capital	\$ 112,601,037		\$ 109,470,848		\$ 107,409,036	
Net interest income		\$ 19,925,631		\$ 18,293,601		\$ 16,938,640

	2023	2022	2021
	Average Yield	Average Yield	Average Yield
Yield on loans	6.12%	4.90%	4.44%
Cost of interest-bearing liabilities	3.75%	2.48%	1.98%
Interest rate spread	2.37%	2.42%	2.46%

	2023 vs. 2022			2022 vs. 2021		
	Increase due to			Increase due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income - loans	\$ 976,085	\$ 8,056,284	\$ 9,032,369	\$ 1,800,711	\$ 2,951,692	\$ 4,752,403
Interest expense	415,651	6,984,688	7,400,339	762,697	2,634,745	3,397,442
Net interest income	\$ 560,434	\$ 1,071,596	\$ 1,632,030	\$ 1,038,014	\$ 316,947	\$ 1,354,961

Interest income for 2023 increased by \$9,032,369, or 28.7 percent, compared to 2022, primarily due to an increase in yield on earning assets and growth in the portfolio. Interest expense for 2023 increased by \$7,400,339, or 56.0 percent, compared to 2022, primarily due to an increase in the cost of funds and growth in the portfolio. The interest rate spread decreased by five (5) basis points to 2.37 percent in 2023 from 2.42 percent in 2022, primarily due to an increase in the cost of funds and market pressure which limited the Association's ability to increase yields. These same factors led to an interest rate spread decrease of four (4) basis points to 2.42 percent in 2022 from 2.46 percent in 2021.

Noninterest income for 2023 decreased by \$1,903,628, or 48.2 percent, compared to 2022, primarily due to a decrease in patronage income from the Bank of \$1,796,537. Noninterest income for 2022 increased by \$34,381, or 0.9 percent, compared to 2021, primarily due to an increase in patronage income from the Bank of \$337,744.

Provisions for credit losses increased by \$764,795 from \$(113,057) in 2022 to \$651,738 in 2023, or 676.5 percent, primarily due to an additional allowance requirement on certain impaired loans.

Operating expenses consist primarily of salaries and employee benefits, insurance fund premiums, occupancy and equipment costs, and purchased services. Expenses for purchased services may include administrative services, marketing, information systems, accounting, and loan processing, among others. In 2023, operating expenses increased by \$553,574, or 5.8 percent. The increase in operating expenses was primarily due to increases in salaries and employee benefits of \$316,340, purchased services of \$155,278, and occupancy and equipment costs of \$104,113.

For the year ended December 31, 2023, the Association's return on average assets was 1.6 percent, as compared to 1.9 percent and 1.8 percent for the years ended December 31, 2022, and 2021, respectively. For the year ended December 31, 2023, the Association's return on average members' equity was 8.6 percent, as compared to 10.2 percent and 9.2 percent for the years ended December 31, 2022, and 2021, 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 \$577,651,441, \$526,409,194, and \$519,237,475 as of December 31, 2023, 2022, and 2021, respectively, is recorded as a liability on the Association's Consolidated Balance Sheets. The note carried a weighted average interest rate of 4.1 percent, 3.2 percent, and 1.8 percent at December 31, 2023, 2022, and 2021, respectively. The indebtedness is collateralized by a pledge of substantially all the Association's assets to the Bank and is governed by a general financing agreement (GFA). The increase in notes payable to the Bank and related accrued interest payable since December 31, 2022, is due to growth in the portfolio and an increase in interest rates. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$112,361,303, \$110,927,311 and \$110,109,452 at December 31, 2023, 2022, and 2021, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2023, was \$700,880,686 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, which is September 30, 2026, 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 manage cash balances, maximize debt reduction, and increase accrual loan volume. This policy will continue to be pursued during 2024. 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 \$127,144,934, \$124,406,607, and \$119,726,439 at December 31, 2023, 2022, and 2021, 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 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 credit loss accounts. The Association's permanent capital ratio at December 31, 2023, 2022, and 2021 was 17.0 percent, 17.1 percent, and 17.3 percent, respectively. The core surplus ratio measures available core surplus capital relative to risk-weighted assets and off-balance-sheet contingencies. The ratio is an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The Association's core surplus ratio at December 31, 2023, 2022 and

2021 was 17.0%, 17.1% and 17.2%, respectively, which is in compliance with the FCA's minimum ratio requirement of 3.5%. The total surplus ratio measures available surplus capital relative to risk-weighted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect borrowers' investments in the Association. The Association's total surplus ratio at December 31, 2023, 2022 and 2021 was 17.0%, 17.1% and 17.2%, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0%. Refer to Note 9 in the "Notes to Consolidated Financial Statements" for further details about capital.

### **Regulatory Matters:**

At December 31, 2023, the Association was not under written agreements with the Farm Credit Administration (FCA).

On October 12, 2023, the FCA approved a final rule on young, beginning, and small (YBS) farmer and rancher activity, effective February 1, 2024. The objectives of the rule are to expand the YBS activities of direct-lender associations to a diverse population of borrowers, to reinforce the supervisory responsibilities of the banks that fund the direct-lender associations, to require the banks to annually review and approve the associations' YBS programs, and to require each direct-lender association to enhance the strategic plan for its YBS program. The FCA will transition to a new YBS reporting system in 2024 to provide a clearer picture of YBS lending by allowing the agency to better break down and categorize loan data.

On October 5, 2023, the FCA approved a final rule on cyber risk management that requires each System institution to develop and implement a comprehensive, written cyber risk management program. Each institution's cyber risk plan must require the institution to take actions to assess internal and external risk factors, identify potential system and software vulnerabilities, establish a risk management program for the risks identified, develop a cyber risk training program, set policies for managing third-party relationships, maintain robust internal controls, and establish institution board reporting requirements. The final rule will become effective January 1, 2025.

On January 13, 2023, the FCA issued an advance notice of proposed rulemaking on the regulatory capital framework for Farmer Mac. The comment period ended April 26, 2023.

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.

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 January 1, 2022.

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 January 24, 2022.

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 November 27, 2021.

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 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.

In 2023, 2022, and 2021, the Association paid patronage distributions of \$8,307,074, \$7,900,000, and \$7,241,217, respectively. In December 2023, the board of directors approved an \$8,600,000 patronage distribution to be paid in March 2024. See Note 9, “Members Equity,” in the accompanying consolidated financial statements for further information.

#### **Relationship With the Bank:**

The Association’s statutory obligation to borrow only from the Bank is discussed in Note 8, “Note Payable to the Bank,” in the accompanying consolidated financial statements.

The Bank’s ability to access capital of the Association is discussed in Note 2, “Summary of Significant Accounting Policies,” in the accompanying consolidated financial statements within the section “Capital Stock Investment in the Farm Credit Bank of Texas.”

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 8, “Note Payable to the Bank,” in the accompanying consolidated financial statements.

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 12, “Related Party Transactions,” in the accompanying consolidated financial statements, 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 107 years, regardless of the state of the agricultural economy, your Association’s board of directors, management, and employees have been committed to partnering with agricultural producers and rural communities by providing a reliable source of credit and financial support. Your continued support will be critical to the success of this Association.



## **Report of Independent Auditors**

To the Board of Directors of Central Texas Farm Credit, ACA

### ***Opinion***

We have audited the accompanying consolidated financial statements of Central Texas Farm Credit, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2023, 2022 and 2021, and the related consolidated statements of comprehensive income, changes in members' equity and cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2023, 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 audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Emphasis of Matter***

As discussed in Note 2 to the consolidated financial statements, the Association changed the manner in which it accounts for the allowance for credit losses in 2023. Our opinion is not modified with respect to this matter.

### ***Responsibilities of Management for the Consolidated Financial Statements***

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

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

## ***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

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

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

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

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

### ***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the information included in the 2023 Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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



Austin, Texas  
March 8, 2024

**CENTRAL TEXAS FARM CREDIT, ACA**

**CONSOLIDATED BALANCE SHEETS**

	December 31,		
	2023	2022	2021
<b><u>Assets</u></b>			
Cash	\$ 4,835	\$ 1,060	\$ 2,960
Loans	693,934,819	640,374,007	631,826,004
Less: allowance for credit losses on loans	1,776,641	1,426,947	1,648,857
Net loans	692,158,178	638,947,060	630,177,147
Accrued interest receivable	8,774,133	7,243,702	6,307,042
Investment in and receivable from the Farm			
Credit Bank of Texas:			
Capital stock	11,363,305	10,644,260	9,810,495
Other	1,280,994	2,572,032	561,787
Premises and equipment	6,031,224	5,478,861	5,461,359
Other assets	281,343	328,671	316,131
Total assets	<u>\$ 719,894,012</u>	<u>\$ 665,215,646</u>	<u>\$ 652,636,921</u>
<b><u>Liabilities</u></b>			
Note payable to the Farm Credit Bank of Texas	\$ 577,651,441	\$ 526,409,194	\$ 519,237,475
Advance conditional payments	309	-	-
Accrued interest payable	1,927,681	1,449,051	784,241
Dividends payable	8,600,000	8,300,000	7,900,000
Other liabilities	4,569,647	4,650,794	4,988,766
Total liabilities	<u>592,749,078</u>	<u>540,809,039</u>	<u>532,910,482</u>
<b><u>Members' Equity</u></b>			
Capital stock and participation certificates	2,004,125	2,025,230	2,117,870
Unallocated retained earnings	124,922,120	122,114,885	117,664,002
Accumulated other comprehensive income (loss)	218,689	266,492	(55,433)
Total members' equity	<u>127,144,934</u>	<u>124,406,607</u>	<u>119,726,439</u>
Total liabilities and members' equity	<u>\$ 719,894,012</u>	<u>\$ 665,215,646</u>	<u>\$ 652,636,921</u>

*The accompanying notes are an integral part of these consolidated financial statements.  
Central Texas Farm Credit, ACA — 2023 Annual Report*

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2023	2022	2021
<b><u>Interest Income</u></b>			
Loans	\$ 40,529,175	\$ 31,496,806	\$ 26,744,403
<b><u>Interest Expense</u></b>			
Note payable to the Farm Credit Bank of Texas	20,603,544	13,203,205	9,805,763
Net interest income	19,925,631	18,293,601	16,938,640
<b><u>Provision for (reversal of) credit losses</u></b>			
Net interest income after provision for (reversal of) credit losses	651,738	(113,057)	382,713
	19,273,893	18,406,658	16,555,927
<b><u>Noninterest Income</u></b>			
Income from the Farm Credit Bank of Texas:			
Patronage income	1,928,103	3,724,640	3,386,896
Loan fees	163,004	170,409	303,768
Financially related services income	6,211	6,240	5,785
(Loss) gain on sale of premises and equipment, net	(81,867)	(1,194)	190,993
Other noninterest income	31,636	50,620	28,892
Total noninterest income	2,047,087	3,950,715	3,916,334
<b><u>Noninterest Expenses</u></b>			
Salaries and employee benefits	5,842,327	5,525,987	5,836,664
Directors' expense	205,776	234,263	149,372
Purchased services	628,937	473,659	435,275
Travel	305,368	311,059	290,424
Occupancy and equipment	665,154	561,041	501,371
Communications	132,170	144,993	139,708
Advertising	325,787	306,729	117,504
Public and member relations	313,731	286,635	444,756
Supervisory and exam expense	268,061	249,776	229,148
Insurance Fund premiums	1,055,128	1,112,411	849,824
Other components of net periodic postretirement benefit cost	74,964	81,781	84,390
Other noninterest expense	342,661	318,156	287,766
Total noninterest expenses	10,160,064	9,606,490	9,366,202
<b>NET INCOME</b>	<b>11,160,916</b>	<b>12,750,883</b>	<b>11,106,059</b>
Other comprehensive (loss) income:			
Change in postretirement benefit plans	(47,803)	321,925	161,397
<b>COMPREHENSIVE INCOME</b>	<b>\$ 11,113,113</b>	<b>\$ 13,072,808</b>	<b>\$ 11,267,456</b>

*The accompanying notes are an integral part of these consolidated financial statements.  
Central Texas Farm Credit, ACA — 2023 Annual Report*

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Members' Equity
Balance at December 31, 2020	\$ 2,208,715	\$ 114,499,160	\$ (216,830)	\$ 116,491,045
Comprehensive income	-	11,106,059	161,397	11,267,456
Capital stock/participation certificates issued	365,410	-	-	365,410
Capital stock/participation certificates retired	(456,255)	-	-	(456,255)
Patronage dividends:				
Cash	-	(7,941,217)	-	(7,941,217)
Balance at December 31, 2021	2,117,870	117,664,002	(55,433)	119,726,439
Comprehensive income	-	12,750,883	321,925	13,072,808
Capital stock/participation certificates issued	281,287	-	-	281,287
Capital stock/participation certificates retired	(373,927)	-	-	(373,927)
Patronage dividends:				-
Cash	-	(8,300,000)	-	(8,300,000)
Balance at December 31, 2022	2,025,230	122,114,885	266,492	124,406,607
Cumulative effect of a change in accounting principle	-	253,393	-	253,393
Balance at January 1, 2023	2,025,230	122,368,278	266,492	124,660,000
Comprehensive income	-	11,160,916	(47,803)	11,113,113
Capital stock/participation certificates issued	222,055	-	-	222,055
Capital stock/participation certificates retired	(243,160)	-	-	(243,160)
Patronage dividends:				
Cash	-	(8,607,074)	-	(8,607,074)
<b>Balance at December 31, 2023</b>	<b>\$ 2,004,125</b>	<b>\$ 124,922,120</b>	<b>\$ 218,689</b>	<b>\$ 127,144,934</b>

*The accompanying notes are an integral part of these consolidated financial statements.  
Central Texas Farm Credit, ACA — 2023 Annual Report*

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2023	2022	2021
<b>Cash flows from operating activities:</b>			
Net income	\$ 11,160,916	\$ 12,750,883	\$ 11,106,059
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for (reversal of) credit losses	651,738	(113,057)	382,713
Depreciation, amortization, and accretion	586,785	518,797	586,286
Allocated equities patronage from the Farm Credit Bank of Texas	(434,065)	-	-
Gain (loss) on sale of premises and equipment, net	(112,620)	(1,194)	190,993
Loss (gain) on sale of loans, net	194,487	-	-
Increase in accrued interest receivable	(1,530,431)	(936,660)	(254,604)
Decrease (increase) in other receivables from the Farm Credit Bank of Texas	1,291,038	(2,010,245)	163,074
Decrease (increase) in other assets	47,328	(12,540)	(24,845)
Increase (decrease) in accrued interest payable	478,630	664,810	(42,895)
Increase (decrease) in other liabilities	6,217	(27,809)	479,072
Net cash provided by operating activities	12,340,023	10,832,985	12,585,853
<b>Cash flows from investing activities:</b>			
Increase in loans, net	(54,244,809)	(8,877,584)	(48,720,299)
Cash recoveries of loans previously charged off	3,711	-	-
Purchases of investments in the Farm Credit Bank of Texas	(719,045)	(833,765)	(878,180)
Proceeds from other investments in the Farm Credit Bank of Texas	434,065	-	-
Purchases of premises and equipment	(1,021,636)	(305,003)	(1,761,091)
Proceeds from sales of premises and equipment	297,089	2,388	2,364
Net cash used in investing activities	(55,250,625)	(10,013,964)	(51,357,206)

*The accompanying notes are an integral part of these consolidated financial statements.  
Central Texas Farm Credit, ACA — 2023 Annual Report*

**CENTRAL TEXAS FARM CREDIT, ACA**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Year Ended December 31,		
	2023	2022	2021
<b>Cash flows from financing activities:</b>			
Net draws on note payable to the Farm Credit Bank of Texas	51,242,247	7,171,719	46,474,311
Decrease in drafts outstanding	-	-	(360,936)
Increase (decrease) in advance conditional payments	309	-	(12,000)
Issuance of capital stock and participation certificates	222,055	281,287	365,410
Retirement of capital stock and participation certificates	(243,160)	(373,927)	(456,255)
Cash dividends paid	(8,307,074)	(7,900,000)	(7,241,217)
Net cash provided by (used in) financing activities	42,914,377	(820,921)	38,769,313
Net increase (decrease) in cash	3,775	(1,900)	(2,040)
Cash at the beginning of the year	1,060	2,960	5,000
Cash at the end of the year	\$ 4,835	\$ 1,060	\$ 2,960
<b>Supplemental schedule of noncash investing and financing activities:</b>			
Loans charged off	\$ 187,529	\$ 97,091	\$ -
Dividends declared	8,600,000	8,300,000	7,900,000
Transfer of allowance for credit losses on loans from (into) reserve for credit losses on unfunded commitments	20,022	(11,762)	20,640
<b>Supplemental cash flow information:</b>			
Cash paid during the year for:			
Interest	\$ 20,124,914	\$ 12,538,395	\$ 9,848,658

*The accompanying notes are an integral part of these consolidated financial statements.  
Central Texas Farm Credit, ACA — 2023 Annual Report*

**CENTRAL TEXAS FARM CREDIT, ACA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 — ORGANIZATION AND OPERATIONS:**

- A. Organization: Central Texas Farm Credit, ACA, including its wholly owned subsidiaries, Central Texas, PCA and Central Texas 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 Baylor, Brown, Callahan, Coke, Coleman, Comanche, Concho, Haskell, Irion, Jones, Knox, McCulloch, Menard, Mills, Reagan, Runnels, San Saba, Sterling, Stonewall, and Tom Green 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, 2023, 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 (the 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, 2023, the District consisted of the Bank, one FLCA, and 12 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, which may be passed on to the associations.

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 Farm Credit 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 also serves as an intermediary in offering credit life insurance.

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. The Bank’s Annual Report to Stockholders discusses the material aspects of the District’s financial condition, changes in financial condition, and results of operations. In addition, the Bank’s Annual Report to Stockholders identifies favorable and unfavorable trends, significant events, uncertainties, and the impact of activities of the Insurance Fund. Upon request, stockholders of the Association will be provided with the Bank’s 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 credit 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 Central Texas, PCA and Central Texas, FLCA. All significant intercompany transactions have been eliminated in consolidation.

- A. Recently Issued or Adopted Accounting Pronouncements: On January 1, 2023, the Association adopted the Financial Accounting Standards Board (FASB) guidance titled “Measurement of Credit Losses on Financial Instruments” and other subsequently issued accounting standards updates related to credit losses. This guidance replaced the current incurred loss impairment methodology with a single allowance framework that estimates the current expected credit losses (CECL) over the remaining contractual life for all financial assets measured at amortized cost and certain off-balance sheet credit exposures. This guidance is applied on a modified retrospective basis. This framework requires management to consider in its estimate of the allowance for credit losses (ACL) relevant historical events, current conditions, and reasonable and supportable forecasts that consider macroeconomic conditions.

The following table presents the balance sheet impact to the allowance for credit losses and capital upon adoption of this guidance on January 1, 2023:

	CECL		
	December 31, 2022	adoption impact	January 1, 2023
<b>Assets:</b>			
Allowance for credit losses on loans	\$ 1,426,947	\$ (138,248)	\$ 1,288,699
<b>Liabilities:</b>			
Allowance for credit losses on unfunded commitments	\$ 225,323	\$ (115,145)	\$ 110,178
<b>Retained earnings:</b>			
Unallocated retained earnings, net of tax	\$ 122,114,885	\$ 253,393	\$ 122,368,278

Also adopted effective January 1, 2023, was the updated guidance titled “Financial Instruments – Credit Losses: Troubled Debt Restructurings and Vintage Disclosure.” This guidance requires the creditor to determine whether a modification results in a new loan or a continuation of an existing loan, among other disclosures specific to modifications with borrowers that are experiencing financial difficulties. The update eliminated the accounting guidance for troubled debt restructurings by creditors. The update also requires disclosure of current period gross write-offs by year of origination for financing receivables and net investments in leases on a prospective basis.

In December 2022, the FASB issued an update titled "Reference Rate Reform - Deferral of the Sunset Date of Topic 848." In March 2020, the FASB issued guidance titled “Facilitation of the Effects of Reference Rate Reform on Financial Reporting (Reference Rate Reform).” The guidance provided optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform to ease the potential burden related to reference rate reform (transition away from the London Inter-Bank Offered Rate (LIBOR)). At the time the update was issued, the expectation was that LIBOR would cease to be published after December 31, 2021. In January 2021, the FASB issued an update to Reference Rate Reform whereby certain derivative instruments could be modified to change the rate used for margining, discounting, or contract price alignment. An entity could 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, 2021, 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 did not apply to contract modifications made or new hedging relationships entered into after December 31, 2023, and existing hedging relationships evaluated for effectiveness in periods after December 31, 2022. Subsequent to the issuance of the January 2021 update, it was announced that the intended cessation date for various tenors of LIBOR would be September 30, 2023, thus necessitating the update to the sunset date. The amendments in the current update defer the sunset date from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief. The Association adopted the guidance in the first quarter of 2021, and the impact was not material to the Association’s financial condition or results of operations.

- B. Cash: Cash, as included in the financial statements, represents cash on hand and deposits at banks.
- C. Loans and Allowance for Credit Losses on Loans: Long-term real estate mortgage loans generally have original maturities ranging from five to 40 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. Loan origination fees and direct loan origination costs are capitalized and the net fee or cost is amortized over the life of the related loan as an adjustment to yield. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

#### *Nonaccrual Loans*

Nonaccrual loans are loans for which there is reasonable doubt that all principal and interest will be collected according to the original contractual terms and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is modified or until the entire amount past due, including principal,

accrued interest, and penalty interest incurred as a result of past-due status, is collected or otherwise discharged in full.

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

When loans are in nonaccrual status, interest payments received in cash are recognized as interest income if collectability of the loan is fully expected and certain other criteria are met. Otherwise, payments received are applied against the recorded investment in the loan. Nonaccrual loans are returned to accrual status if all contractual principal and interest are current, the borrower has demonstrated payment performance, and collection is fully expected to fulfill the contractual repayments terms and after remaining current as to principal and interest for a sustained period or have a recent repayment pattern demonstrating future repayment capacity to make on-time 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 should first be recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

#### *Accrued Interest Receivable*

The Association elected to continue classifying accrued interest on loans in accrued interest receivable and not as part of loans on the Consolidated Balance Sheets. The Association has also elected to not estimate an allowance on interest receivable balances because the nonaccrual policies in place provide for the accrual of interest to cease on a timely basis when all contractual amounts are not expected.

#### *Loan Modifications to Borrowers Experiencing Financial Difficulty*

Loan modifications may be granted to borrowers experiencing financial difficulty. Modifications can be in the form of one or a combination of principal forgiveness, interest rate reduction, other-than-insignificant payment delay, or a term extension. Covenant waivers and modifications of contingent acceleration clauses are not considered term extensions.

#### *Collateral Dependent Loans*

Collateral dependent loans are loans secured by collateral, including but not limited to agricultural real estate, crop inventory, equipment, and livestock. CECL requires an entity to measure the expected credit losses based on fair value of the collateral at the reporting date when the entity determines that foreclosure is probable. Additionally, CECL allows a fair value practical expedient as a measurement approach for loans when the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulties. Under the practical expedient measurement approach, the expected credit losses are based on the difference between the fair value of the collateral less estimated costs to sell and the amortized cost basis of the loan.

#### *Allowance for Credit Losses*

Effective January 1, 2023, the allowance for credit losses (ACL) represents the estimated current expected credit losses over the remaining contractual life of financial assets measured at amortized cost and certain off-balance sheet credit exposures. The ACL takes into consideration relevant information about past events, current conditions, and reasonable and supportable macroeconomic forecasts of future conditions. The contractual term excludes expected extensions, renewals, and modifications unless the extension or renewal options are not unconditionally cancelable. The ACL comprises:

- the allowance for credit losses on loans (ACLL), which covers the loan portfolio and is presented separately on the Consolidated Balance Sheets; and

- the allowance for credit losses on unfunded commitments, which is presented on the Consolidated Balance Sheets in other liabilities.

Determining the appropriateness of the ACL is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio considering macroeconomic conditions, forecasts, and other factors prevailing at the time may result in significant changes in the ACL in those future periods.

#### *Allowance for Credit Losses on Loans*

The ACLL represents management's estimate of credit losses over the remaining expected life of loans. Loans are evaluated on an amortized cost basis, including premiums, discounts, and fair value hedge accounting adjustments. The expected life of a loan is determined based on the contractual term of the loan, anticipated prepayment rates, cancellation features, and certain extension and call options. The ACLL is estimated using a probability of default (PD) and loss given default (LGD) model wherein impairment is calculated by multiplying the PD (probability the loan will default in a given timeframe) by the LGD (percentage of the loan expected to be collected at default.)

The Association employs a disciplined process and methodology to establish its ACLL that has two basic components: first, an asset-specific component involving individual loans that do not share risk characteristics with other loans and the measurement of expected credit losses for such individual loans; and second, a pooled component for estimated expected credit losses for pools of loans that share similar risk characteristics.

Asset-specific loans are generally collateral-dependent loans (including those loans for which foreclosure is probable) and nonaccrual loans. For an asset-specific loan, expected credit losses are measured as the difference between the amortized cost basis in the loan and the present value of expected future cash flows discounted at the loan's effective interest rate except that, for collateral-dependent loans, credit loss is measured as the difference between the amortized cost basis in the loan and the fair value of the underlying collateral. The fair value of the collateral is adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral. In accordance with the Association's appraisal policy, the fair value of collateral-dependent loans is based upon independent third-party appraisals or on collateral valuations prepared by in-house appraisers. When an updated appraisal or collateral valuation is received, management reassesses the need for adjustments to the loan's expected credit loss measurements and, where appropriate, records an adjustment. If the calculated expected credit loss is determined to be permanent, fixed, or non-recoverable, the credit loss portion of the loan will be charged off against the allowance for credit losses.

In estimating the components of the ACLL that share common risk characteristics, loans are evaluated collectively and segregated into loan pools considering the risk associated with the specific pool. Relevant risk characteristics include loan type, commodity, credit quality rating, delinquency category or business segment, or a combination of these classes. The allowance is determined based on a quantitative calculation of the expected life-of-loan loss percentage for each loan category by considering the probability of default, based on the migration of loans from performing to loss by credit quality rating and the severity of loss, based on the aggregate net lifetime losses incurred per loan pool.

The ACLL also considers factors for each loan pool to adjust for differences between the historical period used to calculate historical default and loss severity rates and expected conditions over the remaining lives of the loans in the portfolio related to:

- lending policies and procedures;
- national, regional, and local economic business conditions and developments that affect the collectability of the portfolio, including the condition of various markets;
- the nature of the loan portfolio, including the terms of the loans;
- the experience, ability, and depth of the lending management and other relevant staff;
- the volume and severity of past due and adversely classified or graded loans and the volume of nonaccrual loans;
- the quality of the loan review and process;
- the value of underlying collateral for collateral-dependent loans;
- the existence and effect of any concentrations of credit and changes in the level of such concentrations; and

- the effect of external factors such as competition and legal and regulatory requirements on the level of credit losses in the existing portfolio.

The Association's macroeconomic forecast includes a weighted selection of the baseline, upside 10<sup>th</sup> percentile, and downside 90<sup>th</sup> percentile from third-party economic scenarios over a reasonable and supportable forecast period of two years. Subsequent to the forecast period, the Association reverts to long-run historical loss experience over a two-year reversion period to inform the estimate of losses for the remaining contractual life of the loan portfolio.

The economic forecasts, which are updated quarterly, incorporate macroeconomic variables, including the U.S. unemployment rate, Dow Jones Total Stock Market Index, and U.S. corporate bond spreads. The Association also considers loan and borrower characteristics, such as internal risk ratings, industry, and the remaining term of the loan, adjusted for expected prepayments.

In addition to the quantitative calculation, the Association considers the imprecision inherent in the process and methodology, emerging risk assessments, and other subjective factors, which may lead to a management adjustment to the modeled ACLL results. Expected credit loss estimates also include consideration of expected cash recoveries on loans previously charged-off or expected recoveries on collateral dependent loans where recovery is expected through sale of the collateral. The economic forecasts are updated on a quarterly basis.

Prior to January 1, 2023, the allowance for credit losses on loans was maintained at a level considered adequate to provide for probable losses existing in and inherent in the loan portfolio. The allowance was based on a periodic evaluation of the loan portfolio in which numerous factors were considered, including economic conditions, collateral values, borrowers' financial conditions, loan portfolio composition, and prior loan loss experience. The allowance for credit losses on loans encompassed various judgments, evaluations, and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity would cause these various judgments, evaluations, and appraisals to change over time. Management considered a number of factors in determining and supporting the levels of the allowances for credit losses on loans, which included, but were not limited to: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects, and weather-related influences.

#### *Allowance for Credit Losses on Unfunded Commitments*

The Association evaluates the need for an allowance for credit losses on unfunded commitments under CECL and, if required, an amount is recognized and included in other liabilities on the Consolidated Balance Sheets. The amount of expected losses is determined by calculating a commitment usage factor over the contractual period for exposures that are not unconditionally cancelable by the Association and applying the loss factors used in the ACLL methodology to the results of the usage calculation. No allowance for credit losses is recorded for commitments that are unconditionally cancelable.

- 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 Sheets.

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, is recorded at fair value less estimated selling costs upon acquisition, and is included in other assets in the Consolidated Balance Sheets. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for credit losses on loans. 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 Consolidated 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. 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 Sheets. 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: Substantially all employees of the Association may be eligible to 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, 2023, made on their behalf into various investment alternatives.

The structure of the District's DB plan is characterized as multiemployer, because neither the assets, liabilities or 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 \$255,629, \$231,956, and \$238,742 for the years ended December 31, 2023, 2022, and 2021 respectively. For the DB plan, the Association recognized pension costs of \$501,824, \$461,421, and \$600,939 for the years ended December 31, 2023, 2022, and 2021, 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 \$209,786, \$186,002, and \$189,482 for the years ended December 31, 2023, 2022, and 2021, 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 multiemployer and, consequently, the liability for these benefits is included in other liabilities on the Consolidated Balance Sheets.

- 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 patronage refunds 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 patronage refunds. Deferred taxes are provided on the Association's taxable income on the basis of a proportionate share of the tax effect of temporary differences not allocated in patronage form. 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 13, "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 CREDIT LOSSES ON LOANS:

A summary of loans as of December 31 follows:

Loan Type	2023		2022		2021	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 475,677,600	68.6%	\$ 456,460,621	71.3%	\$ 432,840,207	68.5%
Production and intermediate-term	104,042,629	15.0%	78,334,756	12.2%	91,867,182	14.5%
Agribusiness:						
Processing and marketing	54,881,444	7.9%	51,786,443	8.1%	50,768,509	8.0%
Farm-related business	22,086,234	3.2%	19,545,152	3.1%	26,831,944	4.3%
Loans to cooperatives	5,127,668	0.7%	6,266,947	1.0%	3,135,393	0.5%
Communication	13,511,137	1.9%	13,625,571	2.1%	13,393,063	2.1%
Water and waste-water	7,123,999	1.0%	4,669,377	0.7%	801,802	0.1%
Energy	6,221,452	0.9%	5,104,698	0.8%	6,862,903	1.1%
International loans	4,631,066	0.7%	3,915,065	0.6%	4,233,783	0.7%
Rural residential real estate	631,590	0.1%	665,377	0.1%	1,091,218	0.2%
Total	\$ 693,934,819	100.0%	\$ 640,374,007	100.0%	\$ 631,826,004	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, 2023:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Real estate mortgage	\$ 46,439,552	\$ 15,025,670	\$ -	\$ -	\$ 46,439,552
Production and intermediate-term	25,085,466	13,662,422	-	-	25,085,466	13,662,422
Agribusiness	62,938,861	3,713,909	-	-	62,938,861	3,713,909
Communication	13,511,137	-	-	-	13,511,137	-
Water and waste-water	7,123,999	-	-	-	7,123,999	-
Energy	6,221,452	-	-	-	6,221,452	-
International	4,631,066	-	-	-	4,631,066	-
Total	\$ 165,951,533	\$ 32,402,001	\$ -	\$ -	\$ 165,951,533	\$ 32,402,001

## *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	2023	2022	2021
Comanche	11.3%	10.2%	10.0%
Tom Green	8.8%	9.2%	10.5%
Brown	5.6%	4.7%	5.1%
Coleman	4.3%	4.2%	3.2%
Runnels	3.9%	3.8%	4.2%
Deaf Smith	3.3%	3.2%	3.6%
Taylor	3.1%	3.3%	4.0%
Knox	2.6%	2.8%	3.0%
McCulloch	2.6%	2.8%	3.3%
Dallas	2.1%	2.5%	1.3%
Travis	1.9%	2.4%	2.4%
Midland	1.8%	2.1%	2.3%
Cherokee	1.6%	1.8%	1.3%
Jones	1.6%	1.8%	2.0%
Mills	1.4%	1.4%	1.7%
Hood	1.2%	0.3%	0.3%
Harris	1.1%	0.4%	0.6%
Ector	1.0%	1.2%	1.4%
Angelina	1.0%	0.0%	0.0%
Tarrant	1.0%	0.9%	0.9%
Haskell	0.9%	0.9%	0.0%
Sterling	0.9%	0.7%	0.9%
Other Counties	17.5%	19.7%	19.6%
Other States	19.5%	19.7%	18.4%
<b>Totals</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. Though 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 credit losses on loans.

Operation/Commodity	2023		2022		2021	
	Amount	%	Amount	%	Amount	%
Livestock, except dairy and poultry	\$ 336,670,344	48.5%	\$ 312,659,930	48.8%	\$ 309,788,215	49.0%
Dairy farms	66,315,059	9.6%	50,157,462	7.8%	49,496,361	7.8%
Field crops except cash grains	49,268,452	7.1%	46,301,591	7.2%	54,123,534	8.6%
Hunting, trapping and game propagation	32,640,141	4.7%	35,504,868	5.5%	36,164,021	5.7%
Food and kindred products	32,628,343	4.7%	28,733,622	4.5%	20,555,219	3.3%
Wholesale trade - nondurable goods	30,097,350	4.3%	27,292,674	4.3%	27,924,202	4.4%
General farms, primarily crops	27,918,867	4.0%	27,490,146	4.3%	30,642,217	4.8%
Cash grains	21,271,240	3.1%	22,413,138	3.5%	17,735,902	2.8%
Paper and allied products	17,394,919	2.5%	14,083,927	2.2%	11,184,662	1.8%
Communication	11,991,688	1.7%	11,669,311	1.8%	11,156,560	1.8%
Agricultural services	9,633,865	1.4%	9,796,702	1.5%	12,823,075	2.0%
Chemical and allied products	9,522,933	1.4%	8,419,476	1.3%	13,158,206	2.1%
Timber	9,338,043	1.3%	11,044,962	1.7%	12,274,422	1.9%
Fruit and tree nuts	8,897,203	1.3%	9,238,904	1.4%	7,282,304	1.1%
Poultry and eggs	6,948,162	1.0%	3,326,020	0.5%	-	0.0%
Wholesale trade - durable goods	4,954,401	0.7%	-	0.0%	-	0.0%
Electric services	4,374,077	0.6%	5,269,304	0.8%	7,041,654	1.1%
Lumber and wood products, except furniture	2,653,232	0.4%	3,649,110	0.6%	1,197,642	0.2%
Real estate	2,327,288	0.3%	2,459,331	0.4%	2,236,503	0.4%
Fish hatcheries and preserves	1,594,232	0.2%	1,825,703	0.3%	-	0.0%
General farms, primarily livestock	1,099,703	0.2%	859,186	0.1%	-	0.0%
Animal specialties	962,726	0.2%	1,373,684	0.2%	268,505	0.0%
Rural home loans	795,032	0.1%	568,004	0.1%	454,807	0.1%
Horticultural specialties	260,809	0.1%	253,104	0.0%	-	0.0%
Farm and garden machinery equipment	60,760	0.0%	524,870	0.1%	398,540	0.1%
Tobacco products	-	0.0%	-	0.0%	2,067,580	0.3%
Food stores	-	0.0%	-	0.0%	348,294	0.1%
Other	4,315,950	0.6%	5,458,978	1.1%	3,503,579	0.6%
Total	\$ 693,934,819	100.0%	\$ 640,374,007	100.0%	\$ 631,826,004	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, 2023, 2022, and 2021, loans totaling \$22,054,019, \$23,606,454, and \$25,090,709, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled \$119,527, \$127,437, and \$134,962 in 2023, 2022, and 2021, respectively, and are included in "other noninterest expense."

## Credit Quality

Credit risk arises from the potential inability of an obligor to meet its payment obligation and exists in the Association's outstanding loans, letters of credit, and unfunded loan commitments. The Association manages credit risk associated with the retail lending activities through an analysis of the credit risk profile of an individual borrower using its own set of underwriting standards and lending policies, approved by its board of directors, which provides direction to its loan officers. The retail credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, financial position, and collateral, which includes an analysis of credit scores for smaller loans. Repayment capacity focuses on the borrower's ability to repay the loan based on cash flows from operations or other sources of income, including off-farm income. Real estate mortgage loans must be secured by first liens on the real estate (collateral). As required by Farm Credit Administration regulations, each association that makes loans on a secured basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Loans other than real estate mortgage may be made on a secured or unsecured basis.

The Association uses a two-dimensional risk rating model based on an internally generated combined System risk rating guidance that incorporates a 14-point probability of default rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default. Probability of default is the probability that a borrower will experience a default during the life of the loan. The loss given default is management's estimate as to the anticipated principal loss on a specific loan assuming default occurs during the remaining life of the loan. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower or the loan is classified nonaccrual. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship. The Association reviews, at least on an annual basis or when a credit action is taken, the probability of default category.

Each of the probability of default categories carries a distinct percentage of default probability. The probability of default rate between one and nine of the acceptable categories is very narrow and would reflect almost no default to a minimal default percentage. The probability of default rate grows more rapidly as a loan moves from acceptable to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain. These categories are defined as follows:

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

The following table presents credit quality indicators by loan type and the related principal balance as of December 31, 2023:

	Term Loans						Revolving Loans	
	Amortized Cost by Origination Year						Amortized Cost	
	2023	2022	2021	2020	2019	Prior	Basis	Total
<b>Real estate mortgage</b>								
Acceptable	\$ 72,280,991	\$ 67,251,206	\$ 98,873,235	\$ 74,159,165	\$ 42,690,308	\$ 109,608,193	\$ 69,100	\$ 464,932,198
OAEM	-	-	7,981,673	-	497,889	386,687	-	8,866,249
Substandard/Doubtful	-	-	1,442,736	-	262,328	174,089	-	1,879,153
	<u>72,280,991</u>	<u>67,251,206</u>	<u>108,297,644</u>	<u>74,159,165</u>	<u>43,450,525</u>	<u>110,168,969</u>	<u>69,100</u>	<u>475,677,600</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-
<b>Production and intermediate-term</b>								
Acceptable	9,720,040	7,517,220	11,193,472	3,644,834	1,311,551	1,772,041	63,761,922	98,921,080
OAEM	-	1,655,098	70,289	4,104	-	-	254,171	1,983,662
Substandard/Doubtful	319,888	-	-	-	1,413,535	-	1,404,464	3,137,887
	<u>10,039,928</u>	<u>9,172,318</u>	<u>11,263,761</u>	<u>3,648,938</u>	<u>2,725,086</u>	<u>1,772,041</u>	<u>65,420,557</u>	<u>104,042,629</u>
Current period gross charge-offs	187,529	-	-	-	-	-	-	187,529
<b>Agribusiness</b>								
Acceptable	12,079,873	20,080,517	19,550,278	4,511,495	4,584,332	123,684	18,779,830	79,710,009
OAEM	-	1,041,376	909,026	-	-	-	434,935	2,385,337
Substandard/Doubtful	-	-	-	-	-	-	-	-
	<u>12,079,873</u>	<u>21,121,893</u>	<u>20,459,304</u>	<u>4,511,495</u>	<u>4,584,332</u>	<u>123,684</u>	<u>19,214,765</u>	<u>82,095,346</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-
<b>Communication</b>								
Acceptable	6,346,376	-	3,389,449	3,397,940	-	-	377,372	13,511,137
OAEM	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-
	<u>6,346,376</u>	<u>-</u>	<u>3,389,449</u>	<u>3,397,940</u>	<u>-</u>	<u>-</u>	<u>377,372</u>	<u>13,511,137</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-
<b>Water and waste-water</b>								
Acceptable	2,408,718	2,014,587	2,497,062	-	-	-	203,632	7,123,999
OAEM	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-
	<u>2,408,718</u>	<u>2,014,587</u>	<u>2,497,062</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>203,632</u>	<u>7,123,999</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-
<b>Energy</b>								
Acceptable	1,997,561	-	1,326,053	-	-	2,602,087	-	5,925,701
OAEM	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	295,751	-	295,751
	<u>1,997,561</u>	<u>-</u>	<u>1,326,053</u>	<u>-</u>	<u>-</u>	<u>2,897,838</u>	<u>-</u>	<u>6,221,452</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-
<b>International</b>								
Acceptable	4,631,066	-	-	-	-	-	-	4,631,066
OAEM	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-
	<u>4,631,066</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,631,066</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-
<b>Rural residential real estate</b>								
Acceptable	-	142,853	-	122,966	-	365,771	-	631,590
OAEM	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-
	<u>-</u>	<u>142,853</u>	<u>-</u>	<u>122,966</u>	<u>-</u>	<u>365,771</u>	<u>-</u>	<u>631,590</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-
<b>Total Loans</b>								
Acceptable	109,464,625	97,006,383	136,829,549	85,836,400	48,586,191	114,471,776	83,191,856	675,386,780
OAEM	-	2,696,474	8,960,988	4,104	497,889	386,687	689,106	13,235,248
Substandard/Doubtful	319,888	-	1,442,736	-	1,675,863	469,840	1,404,464	5,312,791
	<u>\$ 109,784,513</u>	<u>\$ 99,702,857</u>	<u>\$ 147,233,273</u>	<u>\$ 85,840,504</u>	<u>\$ 50,759,943</u>	<u>\$ 115,328,303</u>	<u>\$ 85,285,426</u>	<u>\$ 693,934,819</u>
Total current period gross charge-offs	\$ 187,529	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 187,529

The following table shows loans classified under the Farm Credit Administration’s Uniform Loan Classification System as a percentage of total loans by loan type as of December 31, 2023, 2022, and 2021:

	<u>2023</u>		<u>2022</u>		<u>2021</u>
Real estate mortgage					
Acceptable	97.7	%	99.3	%	98.8
OAEM	1.9		0.3		0.5
Substandard/doubtful	0.4		0.4		0.7
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Production and intermediate term					
Acceptable	95.1		99.7		97.1
OAEM	1.9		0.2		2.2
Substandard/doubtful	3.0		0.1		0.7
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Agribusiness					
Acceptable	97.1		94.0		97.8
OAEM	2.9		1.4		-
Substandard/doubtful	-		4.6		2.2
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Communication					
Acceptable	100.0		100.0		100.0
OAEM	-		-		-
Substandard/doubtful	-		-		-
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Water and waste-water					
Acceptable	100.0		100.0		100.0
OAEM	-		-		-
Substandard/doubtful	-		-		-
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Energy					
Acceptable	95.2		84.7		73.4
OAEM	-		-		-
Substandard/doubtful	4.8		15.3		26.6
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
International					
Acceptable	100.0		100.0		100.0
OAEM	-		-		-
Substandard/doubtful	-		-		-
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Rural residential real estate					
Acceptable	100.0		100.0		100.0
OAEM	-		-		-
Substandard/doubtful	-		-		-
	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>
Total Loans					
Acceptable	97.3		98.6		98.2
OAEM	1.9		0.4		0.6
Substandard/doubtful	0.8		1.0		1.2
	<u>100.0</u>	%	<u>100.0</u>	%	<u>100.0</u>

Accrued interest receivable on loans of \$8,774,133; \$7,243,702; and \$6,307,042 at December 31, 2023, 2022, and 2021, respectively, have been excluded from the amortized cost of loans and reported separately on the Consolidated Balance Sheets.

Nonperforming assets (including related accrued interest for 2022 and 2021) and related credit quality statistics are as follows:

	<b>December 31, 2023</b>	December 31, 2022	December 31, 2021
<b>Nonaccrual loans:</b>			
Production and intermediate-term	\$ 1,636,229	\$ -	\$ -
Energy	295,752	783,159	1,826,585
Real estate mortgage	174,089	218,932	33,665
Agribusiness	-	1,845,550	-
Total nonaccrual loans	<u>2,106,070</u>	<u>2,847,641</u>	<u>1,860,250</u>
Accruing loans 90 days or more past due:	-	-	-
Other property owned	-	-	-
<b>Total nonperforming assets</b>	<b><u>\$ 2,106,070</u></b>	<b><u>\$ 2,847,641</u></b>	<b><u>\$ 1,860,250</u></b>
Nonaccrual loans as a percentage of total loans	<b>0.30%</b>	0.44%	0.29%
Nonperforming assets as a percentage of total loans and other property owned	<b>0.30%</b>	0.44%	0.29%
Nonperforming assets as a percentage of capital	<b>1.66%</b>	2.29%	1.55%

The following table provides the amortized cost for nonaccrual loans with and without a related allowance for credit losses on loans, as well as interest income recognized on nonaccrual loans during the period:

	<b>December 31, 2023</b>			<b>Interest Income Recognized For the Year Ended December 31, 2023</b>
	<b>Amortized Cost with Allowance</b>	<b>Amortized Cost without Allowance</b>	<b>Total</b>	
<b>Nonaccrual loans:</b>				
Production and intermediate-term	\$ 1,636,229	\$ -	\$ 1,636,229	\$ 35,996
Energy	295,752	-	295,752	-
Real estate mortgage	-	174,089	174,089	3,583
<b>Total nonaccrual loans</b>	<u>\$ 1,931,981</u>	<u>\$ 174,089</u>	<u>\$ 2,106,070</u>	<u>\$ 39,579</u>

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

<b>December 31, 2023:</b>	<b>30-89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Past Due</b>	<b>Not Past Due or less than 30 Days Past Due</b>	<b>Total Loans</b>	<b>Recorded Investment &gt;90 Days and Accruing</b>
Real estate mortgage	\$ 1,339,997	\$ -	\$ 1,339,997	\$ 474,337,603	\$ 475,677,600	\$ -
Production and intermediate-term	1,418,535	222,632	1,641,167	102,401,462	104,042,629	-
Processing and marketing	-	-	-	54,881,444	54,881,444	-
Farm-related business	-	-	-	22,086,234	22,086,234	-
Loans to cooperatives	-	-	-	5,127,668	5,127,668	-
Communication	-	-	-	13,511,137	13,511,137	-
Water and waste-water	-	-	-	7,123,999	7,123,999	-
Energy	-	-	-	6,221,452	6,221,452	-
International	-	-	-	4,631,066	4,631,066	-
Rural residential real estate	-	-	-	631,590	631,590	-
<b>Total</b>	<u>\$ 2,758,532</u>	<u>\$ 222,632</u>	<u>\$ 2,981,164</u>	<u>\$ 690,953,655</u>	<u>\$ 693,934,819</u>	<u>\$ -</u>

Prior to the adoption of CECL, the aging analysis of past due loans reported included accrued interest as follows:

December 31, 2022:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 580,087	\$ -	\$ 580,087	\$ 461,516,631	\$ 462,096,718	\$ -
Production and intermediate-term	80,800	-	80,800	79,364,345	79,445,145	-
Processing and marketing	557,949	143,210	701,159	51,304,871	52,006,030	-
Farm-related business	-	-	-	19,677,201	19,677,201	-
Loans to cooperatives	-	-	-	6,274,924	6,274,924	-
Communication	-	-	-	13,685,742	13,685,742	-
Water and waste-water	-	-	-	4,670,861	4,670,861	-
Energy	-	957	957	5,142,329	5,143,286	-
International	-	-	-	3,951,160	3,951,160	-
Rural residential real estate	-	-	-	666,642	666,642	-
<b>Total</b>	<b>\$ 1,218,836</b>	<b>\$ 144,167</b>	<b>\$ 1,363,003</b>	<b>\$ 646,254,706</b>	<b>\$ 647,617,709</b>	<b>\$ -</b>

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	\$ 411,053	\$ -	\$ 411,053	\$ 437,580,295	\$ 437,991,348	\$ -
Production and intermediate-term	60,044	-	60,044	92,731,044	92,791,088	-
Processing and marketing	-	-	-	50,858,965	50,858,965	-
Farm-related business	-	-	-	26,956,802	26,956,802	-
Loans to cooperatives	-	-	-	3,136,410	3,136,410	-
Communication	-	-	-	13,395,104	13,395,104	-
Water and waste-water	-	-	-	801,838	801,838	-
Energy	-	1,248,898	1,248,898	5,617,274	6,866,172	-
International	-	-	-	4,241,460	4,241,460	-
Rural residential real estate	-	-	-	1,093,859	1,093,859	-
<b>Total</b>	<b>\$ 471,097</b>	<b>\$ 1,248,898</b>	<b>\$ 1,719,995</b>	<b>\$ 636,413,051</b>	<b>\$ 638,133,046</b>	<b>\$ -</b>

A loan is considered collateral dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The collateral dependent loans are primarily real estate mortgage and rural residential real estate loans.

### Loan Modifications to Borrowers Experiencing Financial Difficulties

Upon adoption of the CECL accounting guidance, creditors are required to disclose specific modifications with borrowers that are experiencing financial difficulty. As of December 31, 2023, the Association had no modified loans with borrowers experiencing financial difficulties.

### Troubled Debt Restructurings

Prior to January 1, 2023, the adoption of updated FASB guidance on loan modifications, a restructuring of a loan constituted a troubled debt restructuring, also known as formally restructured, if the creditor for economic or legal reasons related to the borrower's financial difficulties granted a concession to the borrower that it would not otherwise consider. Concessions varied by program and were borrower-specific and could include interest rate reductions, term extensions, payment deferrals, or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may have been forgiven. When a restructured loan constituted a troubled debt restructuring, these loans were included within impaired loans under nonaccrual or accruing restructured loans. As of December 31, 2022, the Association had one trouble debt restructured loan. As of December 31, 2021, the Association had no troubled debt restructured loans.

### Allowance for Credit Losses

The credit risk rating methodology is a key component of the Association's allowance for credit losses evaluation and is generally incorporated into the Association's loan underwriting standards and internal lending limits. In addition, borrower and commodity concentration lending and leasing limits have been established by the Association to manage credit exposure. The regulatory limit to a single borrower or lessee is 15 percent of the Association's lending and leasing limit base, but the Association's board of directors has generally established more restrictive lending limits.

Effective January 1, 2023, the Association adopted the CECL accounting guidance as described in Note 2. A summary of changes in the allowance for credit losses by portfolio segment for the year ended December 31, 2023, are as follows:

	Real Estate Mortgage	Production and Intermediate- Term	Agribusiness	Communication	Water and Wastewater	Energy	International	Rural Residential Real Estate	Total
<b>Allowance for Credit Losses on Loans:</b>									
Balance at December 31, 2022	\$ 305,431	\$ 270,913	\$ 577,823	\$ 32,844	\$ 10,615	\$ 224,567	\$ 4,521	\$ 233	\$ 1,426,947
Cumulative effect of a change in accounting principle	163,475	(93,537)	(176,995)	(21,546)	(5,220)	(1,817)	(2,506)	(102)	(138,248)
Balance at January 1, 2023	468,906	177,376	400,828	11,298	5,395	222,750	2,015	131	1,288,699
Charge-offs	-	(187,529)	-	-	-	-	-	-	(187,529)
Recoveries	-	-	-	-	-	3,711	-	-	3,711
Provision for (reversal of) credit losses on loans	190,774	677,482	(134,794)	7,795	1,050	(70,729)	313	(131)	671,760
Other	-	-	-	-	-	-	-	-	-
<b>Balance at December 31, 2023</b>	<b>\$ 659,680</b>	<b>\$ 667,329</b>	<b>\$ 266,034</b>	<b>\$ 19,093</b>	<b>\$ 6,445</b>	<b>\$ 155,732</b>	<b>\$ 2,328</b>	<b>\$ -</b>	<b>\$ 1,776,641</b>
<b>Allowance for Credit Losses on Unfunded Commitments:</b>									
Balance at December 31, 2022	\$ 137	\$ 94,010	\$ 124,215	\$ 1,922	\$ 694	\$ 2	\$ 4,343	\$ -	\$ 225,323
Cumulative effect of a change in accounting principle	(99)	(70,808)	(40,274)	(1,156)	(390)	(1)	(2,417)	-	(115,145)
Balance at January 1, 2023	38	23,202	83,941	766	304	1	1,926	-	110,178
Provision for (reversal of) unfunded commitments	187	(1,616)	(19,724)	1,250	221	(1)	(339)	-	(20,022)
<b>Balance at December 31, 2023</b>	<b>\$ 225</b>	<b>\$ 21,586</b>	<b>\$ 64,217</b>	<b>\$ 2,016</b>	<b>\$ 525</b>	<b>\$ -</b>	<b>\$ 1,587</b>	<b>\$ -</b>	<b>\$ 90,156</b>

The allowance for credit losses as of December 31, 2023, was \$1,776,641, reflecting an increase of \$349,694 from December 31, 2022. The increase in allowance for 2023 was primarily driven by specific allowance related to a capital markets relationship participation along with growth in the portfolio.

The economic scenarios utilized in the December 31, 2023 estimate for the allowance for credit losses were based on the following: a baseline scenario, which represents the current economy with expectation the Federal Open Market Committee will start to slowly lower the fed funds rate from 5.33% to 4.77% by the end of 2024 and unemployment will range between 3.5% to 4%; an upside scenario where the fed funds rate stays slightly higher at 4.80% by the end of 2024 but unemployment rates fall lower and stay lower than the baseline scenario from 3.8% down to 3.1% by end of 2024; a downside scenario which represents the fed funds rate at 3.4% by the end of 2024 and unemployment trending higher from 3.8% to 7.6%.

### Allowance for Credit Losses - Prior to CECL Adoption

A summary of changes in the allowance for credit losses on loans by portfolio segment for the years ended December 31, 2022, and December 31, 2021, is as follows:

	Real Estate Mortgage	Production and Intermediate- Term	Agribusiness	Communication	Energy and Water/Waste- water	Rural Residential Real Estate	International	Total
<b>Allowance for Credit Losses on Loans:</b>								
Balance at December 31, 2021	\$ 359,949	\$ 405,304	\$ 459,979	\$ 32,536	\$ 380,728	\$ 1,386	\$ 8,975	\$ 1,648,857
Charge-offs	-	-	-	-	(97,091)	-	-	(97,091)
Recoveries	-	-	-	-	-	-	-	-
(Reversal of) provision for credit losses on loans	(54,400)	(136,807)	135,003	(123)	(52,818)	(1,153)	(2,759)	(113,057)
Other	(118)	2,416	(17,159)	431	4,363	-	(1,695)	(11,762)
Balance at December 31, 2022	<u>\$ 305,431</u>	<u>\$ 270,913</u>	<u>\$ 577,823</u>	<u>\$ 32,844</u>	<u>\$ 235,182</u>	<u>\$ 233</u>	<u>\$ 4,521</u>	<u>\$ 1,426,947</u>
<b>Allowance for Credit Losses on Loans:</b>								
Balance at December 31, 2020	\$ 263,100	\$ 387,617	\$ 437,456	\$ 37,003	\$ 119,964	\$ 364	\$ -	\$ 1,245,504
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for (reversal of) credit losses on loans	96,839	23,286	(9,679)	(4,526)	264,150	1,021	11,622	382,713
Other	10	(5,599)	32,202	59	(3,386)	1	(2,647)	20,640
Balance at December 31, 2021	<u>\$ 359,949</u>	<u>\$ 405,304</u>	<u>\$ 459,979</u>	<u>\$ 32,536</u>	<u>\$ 380,728</u>	<u>\$ 1,386</u>	<u>\$ 8,975</u>	<u>\$ 1,648,857</u>

## NOTE 4 — LEASES

The components of lease expense were as follows:

	Balance Sheet Classification	December 31, 2023	December 31, 2022	Adjustment
Operating leases	Operating lease right-of-use asset- building	\$ 5,609	\$ 21,978	\$ -
Total lease assets		\$ 5,609	\$ 21,978	\$ -
Operating leases	Operating lease right-of-use liabilities- building	\$ 7,811	\$ 30,509	\$ -
Total lease liabilities		\$ 7,811	\$ 30,509	\$ -

Other information related to leases was as follows:

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	\$ 23,240	\$ 22,680
Right-of-use assets obtained in exchange for new lease obligations:		
Operating leases	\$ 5,609	\$ 21,978

Lease term and discount rate are as follows:

	December 31, 2023
Weighted average remaining lease term in years	
Operating leases	0.33
Weighted average discount rate	
Operating leases	4.13%

Future minimum lease payments under non-cancelable leases as of December 31, 2023, were as follows:

	Total
2024	\$ 7,812
2025	-
2026	-
2027	-
2028	-
Thereafter	-
Total	\$ 7,812

## NOTE 5 — INVESTMENT IN THE FARM CREDIT BANK OF TEXAS

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 Sheets. 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 2.2 percent, 2.3 percent, and 2.4 percent of the issued stock of the Bank as of December 31, 2023, 2022, and 2021, respectively. As of those dates, the Bank's assets totaled \$37.3 billion, \$36.0 billion, and \$33.1 billion, and members' equity totaled \$1.7 billion, \$1.6 billion, and \$2.0 billion, respectively. The Bank's earnings were \$199.9 million, \$269.9 million, and \$254.6 million during 2023, 2022, and 2021, respectively.

**NOTE 6 — PREMISES AND EQUIPMENT:**

Premises and equipment consisted of the following at December 31:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Building and improvements	\$ 6,003,505	\$ 5,353,263	\$ 5,146,987
Land and improvements	817,724	817,724	817,724
Furniture and equipment	577,143	562,810	548,650
Automobiles	545,852	497,283	523,927
Computer equipment and software	175,568	174,141	160,547
Construction in progress	-	25,924	-
	<u>8,119,792</u>	<u>7,431,145</u>	<u>7,197,835</u>
Accumulated depreciation	<u>(2,088,568)</u>	<u>(1,952,284)</u>	<u>(1,736,476)</u>
Total	<u>\$ 6,031,224</u>	<u>\$ 5,478,861</u>	<u>\$ 5,461,359</u>

The Association leases office space in Abilene, Texas. Lease expense was \$16,912 for 2023, 2022, and 2021.

**NOTE 7 — OTHER ASSETS AND OTHER LIABILITIES:**

Other assets were composed of the following at December 31:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Accounts Receivable	\$ 226,353	\$ 261,908	\$ 233,630
Other Assets	54,990	66,763	82,501
Total	<u>\$ 281,343</u>	<u>\$ 328,671</u>	<u>\$ 316,131</u>

Other liabilities were composed of the following at December 31:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Postretirement Benefits Liability	\$ 1,860,604	\$ 1,806,422	\$ 2,132,142
Accounts Payable	1,206,043	1,105,513	1,387,954
FCS Insurance Premium Payable	933,204	1,000,892	739,944
Accrued Annual Leave	353,786	354,158	327,358
Allowance on Unfunded Commitments	90,156	225,323	213,562
Other Liabilities	125,854	158,486	187,806
Total	<u>\$ 4,569,647</u>	<u>\$ 4,650,794</u>	<u>\$ 4,988,766</u>

**NOTE 8 — 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, 2026, 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, 2023, 2022, and 2021, was \$577,651,441 at 4.1 percent, \$526,409,194 at 3.2 percent, and \$519,237,475 at 1.8 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, 2023, 2022, and 2021, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2023, was \$700,880,686 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, 2023, 2022, and 2021, 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 9 — 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 A capital stock or participation certificates is equal to 2 percent of the loan amount, up to a maximum amount of \$1,000. 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 A 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 A 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, 2023, 2022, and 2021, 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 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.

Dividends and patronage distributions may be paid on the capital stock and participation certificates 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. In 2023, 2022, and 2021, the Association declared annual patronage distributions of \$8,600,000, \$8,300,000, and \$7,900,000, respectively. The following table represents amounts paid in patronage for the last 3 years.

<b>Date Declared</b>	<b>Date Paid</b>	<b>Patronage</b>
December 2022	March 2023	\$ 8,300,000
December 2021	March 2022	\$ 7,900,000
December 2020	March 2021	\$ 7,200,000

As of December 31, 2023, the Association is not prohibited from retiring stock or distributing earnings.

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, 2023:

<b>Risk-weighted:</b>	<b>Regulatory Minimums</b>	<b>Regulatory Minimums with Buffer</b>	<b>As of December 31, 2023</b>
Common equity tier 1 ratio	4.50%	7.00%	16.97%
Tier 1 capital ratio	6.00%	8.50%	16.97%
Total capital ratio	8.00%	10.50%	17.21%
Permanent capital ratio	7.00%	7.00%	17.01%
<b>Non-risk-weighted:</b>			
Tier 1 leverage ratio	4.00%	5.00%	17.66%
UREE leverage ratio	1.50%	1.50%	17.37%

Risk-weighted assets have been defined by FCA Regulations as the Consolidated Balance Sheet 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 that 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 credit losses on loans 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 that include 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, and 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 and 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, 2023:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	\$ 130,562,046	\$ 130,562,046	\$ 130,562,046	\$ 130,562,046
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	1,995,186	1,995,186	1,995,186	1,995,186
Allowance for credit losses and reserve for credit losses on loans subject to certain limitations*	-	-	1,745,634	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(10,661,749)	(10,661,749)	(10,661,749)	(10,661,749)
	<u>\$ 121,895,483</u>	<u>\$ 121,895,483</u>	<u>\$ 123,641,117</u>	<u>\$ 121,895,483</u>
Denominator:				
Risk-adjusted assets excluding allowance	\$ 728,943,208	\$ 728,943,208	\$ 728,943,208	\$ 728,943,208
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(10,661,749)	(10,661,749)	(10,661,749)	(10,661,749)
Allowance for credit losses on loans	-	-	-	(1,678,698)
	<u>\$ 718,281,459</u>	<u>\$ 718,281,459</u>	<u>\$ 718,281,459</u>	<u>\$ 716,602,761</u>

\*Capped at 1.25 percent 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, 2023:

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	\$ 130,562,046	\$ 130,562,046
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	1,995,186	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(10,661,749)	(10,661,749)
	<u>\$ 121,895,483</u>	<u>\$ 119,900,297</u>
Denominator:		
Total Assets	\$ 704,408,322	\$ 704,408,322
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(14,249,912)	(14,249,912)
	<u>\$ 690,158,410</u>	<u>\$ 690,158,410</u>

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the Association's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements, and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedure and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for credit 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 an 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.

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 A capital stock and participation certificates outstanding at a par value of \$5 per share:

	2023	2022	2021
Class A stock	396,444	401,711	419,479
Participation certificates	4,381	3,335	4,095
Total	<u>400,825</u>	<u>405,046</u>	<u>423,574</u>

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

**Accumulated Other Comprehensive Income (Loss)**

**December 31, 2023**

**Nonpension postretirement benefits**

Before Tax	Deferred Tax	Net of Tax
\$ 218,689	\$ -	\$ 218,689

December 31, 2022

Nonpension postretirement benefits

Before Tax	Deferred Tax	Net of Tax
\$ 266,492	\$ -	\$ 266,492

December 31, 2021

Nonpension postretirement benefits

Before Tax	Deferred Tax	Net of Tax
\$ (55,433)	\$ -	\$ (55,433)

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 Consolidated Statements of Comprehensive Income for the years ended December 31:

	2023	2022	2021
Accumulated other comprehensive income (loss) at January 1	\$ 266,492	\$ (55,433)	\$ (216,830)
Actuarial (losses) gains	(15,588)	342,400	172,965
Amortization of prior service credit included in salaries and employee benefits	(20,475)	-	-
Amortization of actuarial gain included in salaries and employee benefits	(11,740)	(20,475)	(11,568)
Other comprehensive (loss) income, net of tax	(47,803)	321,925	161,397
Accumulated other comprehensive income (loss) at December 31	<u>\$ 218,689</u>	<u>\$ 266,492</u>	<u>\$ (55,433)</u>

**NOTE 10 — INCOME TAXES:**

There was no provision for income taxes for 2023, 2022, or 2021. 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:

	2023	2022	2021
Federal tax at statutory rate	\$ 2,343,792	\$ 2,680,009	\$ 2,332,272
Effect of nontaxable FLCA subsidiary	(1,999,826)	(2,277,027)	(1,974,420)
Patronage distributions	(322,670)	(365,693)	(346,257)
Change in valuation allowance	(21,296)	(37,289)	(11,595)
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:

	2023	2022	2021
<u>Deferred Tax Assets</u>			
Allowance for credit losses on loans	\$ 16,784	\$ 65,630	\$ 102,919
Loss carryforwards	585,778	585,778	585,778
Gross deferred tax assets	602,562	651,408	688,697
Deferred tax asset valuation allowance	(602,562)	(651,408)	(688,697)
<u>Deferred Tax Liabilities</u>			
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 recorded valuation allowances of \$602,562, \$651,408, and \$688,697 during 2023, 2022, and 2021, respectively. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability) that the deferred tax assets will not be realized, based on management’s estimates and assumptions as to future taxable earnings, including the effect of the Association’s expected patronage programs, which reduce taxable earnings. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

The Association became an ACA in 2006. Under adoption, the Association did not recognize the tax liability for any uncertain tax position. At December 31, 2023, 2022, and 2021, the Association did not recognize a tax liability for any uncertain tax provisions.

The Association has a net operating loss carryforward of \$2,789,417, which can be carried forward for 17 years as follows: \$704,202 will expire after 2027, \$589,383 will expire after 2028, \$1,022,882 will expire after 2031, and \$472,950 will expire after 2033.

**NOTE 11 — 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 H of Note 2, “Summary of Significant Accounting Policies.” The structure of the District’s DB Plan is characterized as multiemployer, because 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 DB 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. DB 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). The Supplemental 401(k) 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 payments made from the Supplemental 401(k) Plan to active employees during 2023, 2022, and 2021.

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 DB 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, 2023.

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 DB Plan, the Association’s contributions, and the percentage of Association contribution to total plan contributions for the years ended December 31, 2023, 2022, and 2021:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Funded status of plan	73.3 %	70.9 %	70.5 %
Association's contribution	\$ 501,824	\$ 461,421	\$ 600,939
Percentage of Association's contribution to total contributions	7.7 %	4.4 %	4.0 %

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 74.1 percent, 71.8 percent, and 72.0 percent at December 31, 2023, 2022, and 2021, 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 multiemployer and, consequently, the liability for these benefits is included in other liabilities.

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

**Retiree Welfare Benefit Plans**

<b>Disclosure Information Related to Retirement Benefits</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>Change in Accumulated Postretirement Benefit Obligation</b>			
Accumulated postretirement benefit obligation, beginning of year	\$ 1,806,422	\$ 2,132,142	\$ 2,289,611
Service cost	21,089	35,017	36,857
Interest cost	92,012	65,696	62,904
Plan participants' contributions	7,492	19,281	22,883
Actuarial loss (gain)	15,588	(342,400)	(172,965)
Benefits paid	(81,999)	(103,314)	(107,148)
Accumulated postretirement benefit obligation, end of year	\$ 1,860,604	\$ 1,806,422	\$ 2,132,142
<b>Change in Plan Assets</b>			
Company contributions	\$ 74,507	\$ 84,033	\$ 84,265
Plan participants' contributions	7,492	19,281	22,883
Benefits paid	(81,999)	(103,314)	(107,148)
Plan assets at fair value, end of year	\$ -	\$ -	\$ -
Funded status of the plan	\$ (1,860,604)	\$ (1,806,422)	\$ (2,132,142)
<b>Amounts Recognized on the Balance Sheets</b>			
Other liabilities	\$ (1,860,604)	\$ (1,806,422)	\$ (2,132,142)
<b>Amounts Recognized in Accumulated Other Comprehensive Income</b>			
Net actuarial (gain) loss	\$ (213,774)	\$ (241,102)	\$ 101,298
Prior service credit	(4,915)	(25,390)	(45,865)
Total	\$ (218,689)	\$ (266,492)	\$ 55,433
<b>Weighted-Average Assumptions Used to Determine Obligations at Year End</b>			
Measurement date	12/31/2023	12/31/2022	12/31/2021
Discount rate	5.50%	5.20%	3.15%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	7.50%/8.40%	7.20%/7.70%	6.80%/6.00%
Ultimate health care cost trend rate	4.50%	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2034/2034	2031/2031	2030/2030

<b>Total Cost</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
Service cost	\$ 21,089	\$ 35,017	\$ 36,857
Interest cost	92,012	65,696	62,904
Amortization of:			
Unrecognized prior service credit	(20,475)	(20,475)	(20,475)
Unrecognized net (gain) loss	(11,740)	-	8,907
Net postretirement benefit cost	\$ 80,886	\$ 80,238	\$ 88,193
<b>Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income</b>			
Net actuarial loss (gain)	\$ 15,588	\$ (342,400)	\$ (172,965)
Amortization of net actuarial gain (loss)	11,740	-	(8,907)
Amortization of prior service credit	20,475	20,475	20,475
Total recognized in other comprehensive income	\$ 47,803	\$ (321,925)	\$ (161,397)
<b>AOCI Amounts Expected to be Amortized Into Expense in 2024</b>			
Unrecognized prior service credit	\$ (4,915)		
Unrecognized net gain	(5,455)		
Total	\$ (10,370)		
<b>Weighted-Average Assumptions Used to Determine Benefit Cost</b>			
Measurement date	12/31/2022	12/30/2021	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	2029/2029
<b>Expected Future Cash Flows</b>			
<b>Expected Benefit Payments (net of employee contributions)</b>			
Fiscal 2024	\$ 80,730		
Fiscal 2025	90,707		
Fiscal 2026	90,356		
Fiscal 2027	89,632		
Fiscal 2028	98,108		
Fiscal 2029–2033	593,287		
<b>Expected Contributions</b>			
Fiscal 2024	\$ 80,730		

## NOTE 12 — 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 people at December 31, 2023, 2022, and 2021 for the Association amounted to \$3,185,688, \$3,319,000, and \$3,544,898, respectively. During 2023, 2022, and 2021, \$1,040,129, \$848,654, and \$2,013,234 of new loans were made, and repayments totaled \$989,321, \$1,474,120, and \$2,509,574, respectively. In the opinion of

management, no such loans outstanding at December 31, 2023, 2022, and 2021 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 district associations, such as FCSIC expenses. The Bank charges the individual District associations directly for these services based on each association's proportionate usage. These expenses totaled 184,244, \$188,940, and \$178,211 in 2023, 2022, and 2021, respectively.

The Association received patronage payments from the Bank totaling \$1,928,103, \$3,724,640, and \$3,386,896 during 2023, 2022, and 2021, respectively.

**NOTE 13 — 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.

There were no assets or liabilities measured at fair value on a recurring basis at December 31, 2023, 2022, and 2021. Assets measured at fair value on a nonrecurring basis at December 31, 2023, 2022, and 2021, for each of the fair value hierarchy values are summarized below:

December 31, 2023	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Loans	\$ -	\$ -	\$ 1,338,704	\$ 1,338,704
December 31, 2022				
<b>Assets:</b>				
Loans	\$ -	\$ -	\$ 2,309,096	\$ 2,309,096
December 30, 2021				
<b>Assets:</b>				
Loans	\$ -	\$ -	\$ 1,453,667	\$ 1,453,667

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, 2023				
	Total Carrying Amount	Fair Value Measurement Using			Total Fair Value
		Level 1	Level 2	Level 3	
<b>Assets:</b>					
Cash	\$ 4,835	\$ 4,835	\$ -	\$ -	\$ 4,835
Net loans	690,819,474	-	-	654,003,824	654,003,824
<b>Total Assets</b>	<b>\$ 690,824,309</b>	<b>\$ 4,835</b>	<b>\$ -</b>	<b>\$ 654,003,824</b>	<b>\$ 654,008,659</b>
<b>Liabilities:</b>					
Note payable to Bank	\$ 577,651,441	\$ -	\$ -	\$ 546,919,467	\$ 546,919,467
<b>Total Liabilities</b>	<b>\$ 577,651,441</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 546,919,467</b>	<b>\$ 546,919,467</b>

December 31, 2022  
Fair Value Measurement Using

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets:</b>					
Cash	\$ 1,060	\$ 1,060	\$ -	\$ -	\$ 1,060
Net loans	636,637,964	-	-	587,816,064	587,816,064
<b>Total Assets</b>	<b>\$ 636,639,024</b>	<b>\$ 1,060</b>	<b>\$ -</b>	<b>\$ 587,816,064</b>	<b>\$ 587,817,124</b>
<b>Liabilities:</b>					
Note payable to Bank	\$ 526,409,194	\$ -	\$ -	\$ 486,110,678	\$ 486,110,678
<b>Total Liabilities</b>	<b>\$ 526,409,194</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 486,110,678</b>	<b>\$ 486,110,678</b>

December 31, 2021  
Fair Value Measurement Using

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets:</b>					
Cash	\$ 2,960	\$ 2,960	\$ -	\$ -	\$ 2,960
Net loans	628,723,480	-	-	632,475,449	632,475,449
<b>Total Assets</b>	<b>\$ 628,726,440</b>	<b>\$ 2,960</b>	<b>\$ -</b>	<b>\$ 632,475,449</b>	<b>\$ 632,478,409</b>
<b>Liabilities:</b>					
Note payable to Bank	\$ 519,237,475	\$ -	\$ -	\$ 522,329,800	\$ 522,329,800
<b>Total Liabilities</b>	<b>\$ 519,237,475</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 522,329,800</b>	<b>\$ 522,329,800</b>

### Uncertainty of Fair Value Measurements

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 consider unobservable inputs such as income and expense, comparable sales, replacement cost, and comparability adjustments.

Information about Level 3 Fair Value Measurements:

	<b><u>Valuation Technique(s)</u></b>	<b><u>Input</u></b>
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Note payable to Bank	Discounted cash flow	Benchmark yield curve Derived yield spread Own credit risk

### 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:

#### *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 14 — 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, 2023, \$108,235,263 of commitments and \$1,524,943 of commercial letters of credit were outstanding.

Because 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 15 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED):**

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

	2023				
	First	Second	Third	Fourth	Total
Net interest income	\$ 4,875	\$ 4,846	\$ 5,022	\$ 5,183	\$ 19,926
Reversal of (provision for) credit losses on loans	97	(1,010)	567	(306)	(652)
Noninterest expense, net	(1,805)	(1,572)	(1,891)	(2,845)	(8,113)
Net income	\$ 3,167	\$ 2,264	\$ 3,698	\$ 2,032	\$ 11,161

	2022				
	First	Second	Third	Fourth	Total
Net interest income	\$ 4,452	\$ 4,509	\$ 4,616	\$ 4,717	\$ 18,294
Reversal of (provision for) credit losses on loans	(21)	(176)	158	152	113
Noninterest expense, net	(1,576)	(1,463)	(1,462)	(1,155)	(5,656)
Net income	\$ 2,855	\$ 2,870	\$ 3,312	\$ 3,714	\$ 12,751

	2021				
	First	Second	Third	Fourth	Total
Net interest income	\$ 4,114	\$ 4,103	\$ 4,246	\$ 4,476	\$ 16,939
Reversal of (provision for) credit losses on loans	(220)	(179)	61	(45)	(383)
Noninterest expense, net	(1,604)	(1,493)	(1,534)	(819)	(5,450)
Net income	\$ 2,290	\$ 2,431	\$ 2,773	\$ 3,612	\$ 11,106

**NOTE 16 — SUBSEQUENT EVENTS:**

The Association has evaluated subsequent events through March 8, 2024, 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 Central Texas Farm Credit, ACA (Association) serves its 20-county territory through its main administrative and lending office at 1026 Early Boulevard, Early, Texas. Additionally, there are seven branch lending offices located throughout the territory. The Association owns the office buildings in Brady, Coleman, Comanche, Early, Haskell, San Angelo, and San Saba, Texas. The Association leases the office space in Abilene, Texas.

### **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 9 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 8, “Note Payable to the Bank,” Note 11, “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 14 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’s annual and quarterly stockholder reports can also be requested by e-mailing [fcf@farmcreditbank.com](mailto:fcf@farmcreditbank.com). The annual and quarterly stockholder reports are also available on its website at [www.farmcreditbank.com](http://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 Central Texas Farm Credit, ACA, P.O. Box 3200, Early, TX, 76803 or calling (325) 643-5563. Copies of the Association’s quarterly stockholder reports can also be requested by e-mailing *Keith.Prater@centraltexasfc.com*. The Association’s annual stockholder report is available on its website at *www.ranchmoney.com* 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, 2023, 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
Robby A. Halfmann	Chairman	2008	2026
Kenneth D. Harvick	Vice Chairman	2012	2025
Mike Finlay	Director	2008	2024
Philip W. Hinds	Director	2009	2024
Steven R. Lehrman	Director	2014	2026
Burl D. Lowery	Director-Elected Director	2013	2024
Gerald L. Rodgers	Director-Elected Director	2022	2025
Zach May	Chief Executive Officer	2009	
Travis B. McKinney	EVP Chief Lending & Operating Officer	2000	
Keith Prater	Chief Financial Officer	2015	
Jim Ed Field	Chief Credit Officer	2013	

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

**Robby A. Halfmann** – age 43 – Mr. Halfmann is a third-generation farmer and rancher in Runnels, Coleman and Concho counties. After attending Tarleton State University, Mr. Halfmann moved home to Runnels County. His principal business is managing his stocker cattle and cow-calf operations and farming small grains. He is also the co-owner of Frey Cattle Company, a cattle order buying operation located in Ballinger, and he serves as the company’s foreman and order buyer. In addition, he is a shareholder of S&H Land and Livestock, LLC, whose primary business is managing a stocker cattle operation in Concho County. Mr. Halfmann is the chairman of the Association’s Board of Directors, vice chairman of the audit committee and serves on the compensation and executive committees. He is also the Association’s representative on the Farm Credit Bank of Texas’ stockholder advisory and nominating committees. Mr. Halfmann was first appointed to the Board in 2008 and is serving a three-year term that expires in 2026.

**Kenneth D. Harvick** – age 72 – Mr. Harvick is a farmer and rancher in Comanche County. His principal business is managing his cow-calf operation, operating a small feedlot, and buying and selling real estate. Mr. Harvick conducts most of his farming and ranching business under the name Chatto Creek Ranch. He is the former president of Gore’s Inc. in Comanche, Texas, which was a dairy, beef cattle, and feed business that operated in Texas and New Mexico. Mr. Harvick attended Tarleton State University. He is the former president of the Texas Holstein Association and a member of the

Comanche Roping Club. Mr. Harvick is the vice chairman of the Association's Board of Directors and serves on the audit, compensation, and executive committees. He was first elected to the Board in 2012 and is serving a three-year term that expires in 2025.

**Mike Finlay** – age 75 – Mr. Finlay is a farmer and rancher in McCulloch and Coleman counties. His principal business consists of farming cotton, wheat, grain sorghum, and hay crops and managing his cattle and sheep operations. Mr. Finlay conducts most of his farming and ranching business under the name Finlay Farms. He is a graduate of Texas Tech University, president of the Fife Cemetery Association, and secretary of the McCulloch County Conservation Association Board. Mr. Finlay serves on the Association's audit and compensation committees. He was first elected to the Board in 2008 and is serving a three-year term that expires in 2024.

**Philip W. Hinds** – age 66 – Mr. Hinds is a cow-calf operator in Coleman County. His principal business is that of owner/operator of Glasson Rentals and Self-Storage in Coleman, Texas. Mr. Hinds attended Texas State Technical Institute, and he is a current member of the Coleman County Rodeo Association and a former member of the Coleman County Farm Bureau. Mr. Hinds serves on the Association's audit and compensation committees. He was first appointed to the Board in 2009 and is currently serving a three-year term that expires in 2024.

**Steven Lehrmann** – age 69 – Mr. Lehrmann is a farmer and rancher in Haskell and Stonewall counties. After graduating from Texas Tech University, Mr. Lehrmann moved home to Haskell County. His primary business is farming wheat and hay crops, along with a cow-calf and stocker operation. Mr. Lehrmann is a member of the Haskell County Farm Bureau and the Rolling Plains Central Boll Weevil Eradication Steering Committee. He is currently committee chairman of the Haskell County FSA Committee and formerly served as a member of the Rule ISD School Board and the Sagerton Water Supply Corp. He was also the past president of the Haskell County Jr. Livestock Show Committee and the former chairman of the Haskell County Appraisal Review Board. Mr. Lehrmann serves on the Association's audit and compensation committees. He was first elected to the Board in 2014 and is serving a three-year term that expires in 2026.

**Burl D. Lowery** – age 73 – Mr. Lowery, a Certified Public Accountant, owns and operates Burl D. Lowery, CPA, an accounting practice in Brownwood, Texas. His primary business is managing his accounting practice. In addition, he currently runs a cow-calf operation and raises hay, peanuts and cotton in Comanche County. Mr. Lowery is a graduate of Tarleton State University and a member of the American Institute of Certified Public Accountants and the Texas Society of Certified Public Accountants. He was first appointed by the Board in January 2013 to serve as a director-elected director. He is also the designated financial expert as defined in and required by FCA regulation. He serves as the chairman of the audit committee and is also a member of the compensation committee. Mr. Lowery is serving a three-year term that expires in 2024.

**Gerald Rodgers** – age 65 – Mr. Rodgers, a Certified Public Accountant, is a shareholder of James E. Rodgers and Company, PC, an accounting firm in Hamlin, Texas. His primary business is his accounting practice and he has been with James E. Rodgers and Company for over 40 years. Mr. Rodgers graduated from Texas Tech University with a bachelor of business administration degree in accounting. He also serves on the Association's audit and compensation committees. He was first appointed by the Board in August 2022 to serve as a director-appointed director. The Board reappointed Mr. Rodgers in December 2022, and he is serving a three-year term that expires in 2025.

**Zach May** – age 45 – Mr. May was promoted to chief executive officer in July 2023, and that is his principal occupation. He previously served as the Association's chief operating officer beginning in 2011 and has also served as the Association's operations manager. Prior to joining the Association in 2009, he was a senior credit analyst at Capital Farm Credit and a commissioned examiner with the Farm Credit Administration. He holds a bachelor's degree in international studies and a master's degree in public policy from Texas A&M University, and he is also a graduate of the Southwest Graduate School of Banking at SMU. He has been employed in the Farm Credit System since 2008.

**Travis B. McKinney** – age 47 – Mr. McKinney was promoted to EVP chief lending and operating officer in July 2023, and that is his principal occupation. Before transitioning to that role, he served as the chief lending officer beginning in 2022. Mr. McKinney has also held the roles of chief credit officer, senior vice president of lending, and branch president of the Early branch office. He has a bachelor's degree in agricultural services and development from Tarleton State University, and he is also a graduate of the Southwest Graduate School of Banking at SMU. Mr. McKinney has been employed in the Farm Credit System since 2000.

**Keith Prater** – age 49 – Mr. Prater has served as the chief financial officer since 2018, and that is his principal occupation. He previously served as the controller for the Association. Before joining the Association, Mr. Prater was the controller for a pecan shelling operation. He has bachelor’s degrees in both accounting and finance from the University of Texas at Arlington. Mr. Prater has been employed in the Farm Credit System since 2015.

**Jim Ed Field** – age 47 – Mr. Field has served as the chief credit officer of the Association since January 1, 2022, and that is his principal occupation. Before transitioning to that role, he served as the senior vice president of credit and lending beginning in 2018. Mr. Field has also held the role of director of credit analysis. Prior to joining the Association in 2013, he was an investment manager with MetLife Agricultural Investments and a credit office president with First Ag Credit. Mr. Field has a bachelor’s degree in agricultural development from Texas A&M University and a master’s degree in agricultural and applied economics from Texas Tech University. He began his agricultural lending career in 2000, serving all but six (6) years in the Farm Credit System.

### COMPENSATION OF DIRECTORS

The chairman and director-elected-director were compensated for their service to the Association in the form of a retainer at the rate of \$1,000 per month, and all other directors received a retainer of \$800 per month. Directors were also compensated at the rate of \$400 per day for training sessions and in-person, unscheduled meetings. In addition, directors were paid \$150 for each committee meeting held on the same day as a board meeting (excluding audit committee meetings), conference calls and Association events. They were reimbursed for certain expenses incurred while representing the Association in an official capacity. Mileage for attending official meetings during 2023 was paid at the IRS-approved rate. A copy of the travel policy is available to stockholders of the Association upon request. (NOTE: The mileage rate changed effective January 1, 2023, from 62.5 cents to 65.5 cents).

Director	Number of Days Served Associated With		Total Compensation in 2023
	Board Meetings	Other Official Activities	
Robby A. Halfmann	11	14	\$ 21,700
Kenneth D. Harvick	10	9.5	16,900
Mike Finlay	10	10	16,850
Philip W. Hinds	11	11	17,900
Burl D. Lowery	10	9	18,850
Steven Lehrman	11	17	20,550
Gerald L. Rodgers	11	6	18,550
			\$ 131,300

The aggregate compensation paid to directors in 2023, 2022, and 2021 was \$131,300, \$122,650, and \$110,250, respectively. Additional detail regarding director compensation paid for committee service (included in the table above) is as follows for 2023:

Director	Compensation Committee
Robby A. Halfmann	\$ 800
Kenneth D. Harvick	800
Mike Finlay	800
Philip W. Hinds	800
Burl D. Lowery	800
Steven R. Lehrman	800
Gerald L. Rodgers	800
	\$ 5,600

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was \$19,882, \$31,100, and \$39,122, in 2023, 2022, and 2021, respectively.

## COMPENSATION OF SENIOR OFFICERS

### Compensation Discussion and Analysis – Senior Officers

#### Overview

All employee salaries are administered in accordance with the Salary Administration Program, which is approved annually by the compensation committee (comprised of the entire board of directors). All salary decisions for employees other than the CEO are determined by the CEO with input from employee supervisors. The aggregate amount of annual employee salary increases is proposed by the CEO and approved by the compensation committee at the December meeting.

All employee bonuses are determined using the calculation methodology outlined in the Annual Bonus Plan, which is approved annually by the board of directors. The plan is based on the Association’s net income, growth in accrual loan volume and individual branch performance in three areas (credit quality, credit administration and new loan originations). Each employee has a target bonus payout, which is a percentage of their base salary. The target payouts vary according to the employee’s level of responsibility. The compensation committee approves the aggregate bonus payout for all employees separately from the CEO at the January compensation committee meeting following the end of the plan year. Bonuses are generally paid in the second payroll period following the January compensation committee meeting. The compensation committee is not bound by the results of the bonus calculation. Final bonus payouts are at the sole discretion of the committee. The Association does not defer any compensation.

#### Chief Executive Officer (CEO) Compensation Policy

The CEO’s salary and bonus are determined by the compensation committee. The CEO’s total compensation for the past three years is detailed in the table below.

#### Summary Compensation Table

The following table summarizes the compensation paid to the CEO and all senior officers of the Association during 2023, 2022, and 2021. This may include 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	Year	Salary (b)	Bonus (c)	Change in		Other (f)	Total
				Pension Value (d)	Deferred/Perquisite (e)		
J. Zachary May, CEO	2023	\$ 219,316	\$ 77,781	\$ -	\$ 33,701	\$ -	\$ 330,797
Boyd J. Chambers, CEO*	2023	\$ 165,000	\$ 52,923	\$ -	\$ 11,903	\$ -	\$ 229,827
<i>*Retired as of 6/30/2023</i>	2022	\$ 325,000	\$ 95,078	\$ -	\$ 24,073	\$ -	\$ 444,151
	2021	\$ 315,000	\$ 121,701	\$ (54,496)	\$ 24,733	\$ 1,000	\$ 407,938
<b>Aggregate Number of Senior Officers (a)</b>							
5	2023	\$ 809,541	\$ 241,701	\$ -	\$ 128,257	\$ -	\$ 1,179,499
5	2022	\$ 831,611	\$ 235,503	\$ -	\$ 123,090	\$ -	\$ 1,190,204
5	2021	\$ 794,818	\$ 335,799	\$ -	\$ 131,368	\$ 5,000	\$ 1,266,985

- (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 31 days of the subsequent calendar year.
- (d) Change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the prior fiscal year to the current fiscal year.
- (e) Deferred/perquisites include contributions to 401(k) and defined contribution plans, supplemental 401(k) discretionary contributions, automobile benefits and premiums paid for life insurance.
- (f) Amounts in the “Other” column include payouts for accrued annual leave and service awards, when applicable.

Disclosure of information on the total compensation paid and the arrangement of the compensation plan during the last fiscal year for any senior officer or for any officer included in the aggregate are available and will be disclosed to shareholders of the institution upon request.

### **Pension Benefits**

The Association participates in the Farm Credit Bank of Texas Pension Plan (the “Pension Plan”), which is a qualified defined benefit retirement plan. Compensation, as defined in the Pension Plan, includes wages, incentive compensation and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement or transfer of employment, severance payments, retention bonuses, taxable fringe benefits and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 (“FAC60”). The Pension Plan’s benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times “Years of Benefit Service” and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation items and (ii) “Years of Benefit Service” (not to exceed 35). The present value of the senior officers’ accumulated Pension Plan is calculated assuming retirement had occurred at the measurement date used for financial reporting purposes with the retirement at age 65. The Pension Plan’s benefit formula for the Normal Retirement Pension assumes that the senior officer is married on the date the annuity begins, that the spouse is exactly two years younger than the senior officer and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions is incorrect, the benefit is recalculated to be the actuarial equivalent benefit.

The Association has a remaining debt obligation to former employees who participated in the defined pension plan. However, neither the CEO nor any senior officers are eligible to participate in the defined pension plan.

### **Other Compensation and Benefit Disclosures**

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 2023 at the IRS-approved rate of 65.5 cents per mile.

Neither the CEO nor any other senior officer received noncash compensation exceeding \$5,000 in 2023, 2022, and 2021.

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 12 to the consolidated financial statements, “Related Party Transactions,” included in this annual report.

### **DIRECTORS’ AND SENIOR OFFICERS’ INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS**

No directors or senior officers of the Association have had any involvement in any events or legal proceedings as required to be disclosed per FCA Regulation 620.6(f) during the past five years.

### **RELATIONSHIP WITH INDEPENDENT AUDITOR**

No change in auditors has taken place since the last annual report to stockholders, and no disagreements with the auditor have occurred that the Association is required to report to the Farm Credit Administration under part 621 of the FCA regulations governing disclosure. The total fees for professional services rendered by PricewaterhouseCoopers, LLP for the Association during 2023 were \$118,920 for audit services.

### **RELATIONSHIP WITH UNINCORPORATED BUSINESS ENTITIES**

The Association has business relationships with Central Texas Holding, LLC, which is a limited liability company formed for the purpose of acquiring and managing unusual and complex collateral (acquired property).

## **FINANCIAL STATEMENTS**

The financial statements, together with the report thereon of PricewaterhouseCoopers, LLP dated March 8, 2024, 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 regulations. 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.

## **CODE OF ETHICS**

Central Texas Farm Credit, ACA (the "Association") has adopted a code of ethical conduct (the "Code"), which is applicable to every Director, Officer, and Employee. The Code reaffirms the high standards of business conduct required of and provides guidance to the Association and its Directors, Officers, Employees, and Agents. The Code of Ethics is available for review on the Association's website.

Directors, officers, and employees are prohibited from directly or indirectly taking any action to fraudulently influence, coerce, manipulate, or mislead the Association's independent public accountant, other directors, officers or employees for the purpose of rendering the financial statements of the Association misleading or for any purpose that is in violation of the Standards of Conduct.

Directors, officers, and employees understand that they will be held accountable for adherence to the Code of Ethics. Failure to observe the terms of this Code of Ethics may result in disciplinary action, up to and including termination of employment or removal from the board of directors. Violations of the Code of Ethics may also constitute violations of law and may result in civil and criminal penalties.

Directors, officers, and employees understand that any questions regarding the best course of action in a particular situation should be promptly addressed to the Association's Standards of Conduct Official and that any individual reporting any possible violation of this Code of Ethics may remain anonymous when reporting a possible violation of this Code of Ethics.

The Association has retained a qualified, independent, third-party individual to serve as the Association's Standard of Conduct Official, who shall be the primary contact for reporting of alleged violations of this Code of Ethics or Association Standards of Conduct.

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

### **MISSION STATEMENT**

The Young, Beginning, and Small Farmer (YBS) mission of Central Texas Farm Credit (the "Association") is to partner YBS farmers, ranchers, and producers or harvesters of aquatic products by providing sound and constructive credit.

### **DEFINITIONS**

1. Young Borrower: A farmer, rancher, and producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
2. Beginning Borrower: A farmer, rancher, and producer or harvester of aquatic products who has 10 years or less of farming, ranching, or aquatic experience as of the loan transaction date.

3. **Small Borrower:** A farmer, rancher, and producer or harvester of aquatic products who normally generates less than \$350,000 in annual gross cash farm income of agricultural or aquatic products at the date the loan was originally made.

## STRATEGY

To accomplish this mission, the Association will provide:

1. The flexibilities of existing loan programs to the advantage of these applicants.

Loan approvers will fully utilize all flexibilities in term, repayment schedules, amortization requirements, initial deferments, schedule of advances, and other such loan approval conditions consistent with existing lending standards and policies.

Loan servicing remedies such as re-amortizations, deferments, extensions, renewals, and other techniques will be made available to program (YBS) borrowers to the fullest extent allowed by policy.

A relaxed set of underwriting standards for “Young” farmers and ranchers is in place to enable and encourage these farmers and ranchers to begin, grow, and/or remain in agricultural production.

2. A commitment of staff resources and expertise to effectively make and service loans and provide credit-related services to this group of farmers, ranchers, and producers or harvesters of aquatic products.

The Association’s chief executive officer (CEO) will have primary responsibility for (a) developing staff expertise in meeting the special financing and related service needs of program applicants; (b) implementing the Association’s YBS program, and (c) developing and submitting reports on the YBS program to the Farm Credit Bank of Texas (FCBT) and Farm Credit Administration (FCA).

3. A commitment of financial resources and a risk management philosophy to ensure the objective of this policy is met.

The Central Texas Farm Credit Board of Directors (the “Board”) will monitor the YBS program to ensure that adequate financial and human resources and an appropriate risk management philosophy exist. Monitoring the program allows the Association to meet program objectives without compromising the ability of the Association to serve non-program farmers, ranchers, and producers or harvesters of aquatic products. The Board will monitor this program through, at least, quarterly reports on the program's progress prepared by the CEO.

4. Guidance and financial assistance to this specialized group of farmers, ranchers, and the groups that support them.

The Association will provide instruction and guidance to young, beginning, and small farmers, ranchers, and producers in areas such as record keeping, financial analysis and management, leasing, capital investment decision-making, marketing strategies and other such management areas. In addition, financial support will be given to extension services and young farmer groups to sponsor seminars, field days, and special events.

The Association will also expand the criteria used to classify a full-time farmer to include part-time young, beginning, and small farmers and ranchers who demonstrate intent to progress toward farming and/or ranching as

their primary business. Such demonstration of intent shall be documented in the loan file and will include, but is not limited to, the following criteria:

- a. The degree of day-to-day involvement the borrower has in the agricultural production operation through labor and/or management that demonstrates a clear commitment to agricultural production.
- b. The intent of the borrower to actively engage in agricultural production, as supported by education, training, experience, business plan, or some other means.
- c. A level, or projected level, of gross agricultural income or production that shows a clear commitment to agriculture.
- d. The terms and structure of the loan, as well as planned use of loan proceeds, demonstrate a commitment to be truly engaged in agricultural production.

The Association’s internal controls and annual YBS review ensure that YBS policies and programs are implemented. These controls and policies ensure all YBS farmers and ranchers are given the opportunity to begin to grow their operation and/or remain in agricultural production.

**TARGETS**

Based on USDA’s 2017 Census of Agriculture, the makeup of Young, Small, and Beginning Farmers in our territory is as follows:

	Total	With Debt
<b>Young</b>	986	330
<b>Beginning</b>	4,277	1,226
<b>Small</b>	12,846	3,240

As of the end of the fourth quarter of 2023, the number of YBS loans in the Association’s portfolio is as follows:

Young Farmers and Ranchers

There were 400 loans to this group of borrowers. This equates to 18 percent of the total number of loans in our portfolio and 41 percent of the total number of young farmers in our territory cited in the 2017 Census.

Beginning Farmers and Ranchers

There were 1,008 loans to this group of borrowers. This equates to 47 percent of the total number of loans in our portfolio and 24 percent of the total number of beginning farmers in our territory cited in the 2017 Census.

Small Farmers and Ranchers

There were 1,598 loans to this group of borrowers. This equates to about 75 percent of the total number of loans in our portfolio and about 49 percent of the number of small farmers with debt in our territory cited in the 2017 Census.

The Association continues all efforts to target YBS farmers and ranchers in our territory who are not customers using outreach programs, including but not limited to, advertising, participating in educational programs, working with

extension agents, participating in agricultural field days, livestock shows, and agricultural seminars, etc. In addition, Association loan officers and senior management offer credit counseling to YBS farmers and ranchers. We will also work with other financial institutions, as appropriate, to ensure the credit needs of these borrowers are met.

## **GOALS**

Central Texas Farm Credit's YBS goal for 2023 was for at least 60 percent of all new loans to be made to borrowers who met one or more of the YBS criteria. We met that goal, as almost 83 percent of our new loans were to a young, beginning, or small farmer or rancher.

The ultimate goal of the Association YBS program is to market to all populations of YBS farmers, ranchers, and producers, including, but not limited to, underserved communities and groups. Marketing, education, and outreach efforts are directed at all of these communities and groups through our normal advertising and public and member relations outreach activities.

## **REPORTING**

The Association incorporates the goals of its YBS program into the strategic business plan and reports the performance results to the Board at least quarterly and FCBT at least annually. In addition, we include a description of our YBS program and a status report on each component in the Annual Report. The Annual Report, with the YBS program information, is posted on the Association's website and mailed to stockholders.