

2022 ANNUAL REPORT



Central Texas Farm Credit Leadership



Robby Halfmann
Chairman



Kenneth Harvick
Vice Chairman



Mike Finlay
Board Member



Philip Hinds
Board Member



Steven Lehrmann
Board Member



Burl Lowery
Outside Director



Gerald Rodgers
Outside Director



Jimmy Chambers
Chief Executive Officer



Zach May
Chief Operating Officer



Travis McKinney
Chief Lending Officer



Jim Ed Field
Chief Credit Officer



Keith Prater
Chief Financial Officer

A Message from our CEO

2022 was a challenging year for the farmers and ranchers in our territory. The weather was hot and dry, and crops and livestock struggled. Adding insult to injury, interest rates and inflation have skyrocketed over the past year and a half to levels we haven't seen for a very long time. Crop insurance and USDA programs softened the financial impact for some producers, but overall, it was a miserable production year.

Thanks to the resilient nature of our members, Central Texas Farm Credit had an outstanding year despite the challenges we all faced. We grew our portfolio, maintained excellent credit quality, and had record earnings. All these things contributed to the board of directors declaring another record patronage refund of \$8.3 million. As managers of a cooperative, we are charged with creating value for our members and we believe the best way to do that is with a strong patronage program.

In late 2021, we adopted a brand-new loan origination and accounting system and we've spent the past year learning to use it and working the bugs out. Like most changes of this magnitude, it has been a painful journey for us and, to an extent, our customers. Some of you experienced our frustrations firsthand and we appreciate your patience as we worked through the learning curve. We have become proficient with our new system, and I believe we are providing better customer service now than we have in years.

As previously communicated, I am planning to retire on June 30, 2023. It seems like a lifetime ago since I came off the range (literally) in 1987 and began adapting to indoor life. My Farm Credit career has been an experience that I wouldn't trade for anything. I have gotten to know some amazing people along the way, and I'll always treasure those friendships.

Because we have an outstanding management team, my departure will not leave the association in a bind. Our board of directors is committed to continuing down the path of being an independent, strong association and they have chosen our current Chief Operating Officer, Zach May, to lead the way. Zach will take over as CEO on July 1, 2023, and I am excited to see the association and its members prosper under his leadership.

Thank you all for trusting Central Texas Farm Credit as your lending partner. It has been an honor to serve you in every role I've held over the past 36 years.

All the best,



Jimmy Chambers
Chief Executive Officer



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2022 in Review

\$647.8 million

Total loan volume



This was an increase of approximately \$13 million from the previous year.

2,843

Total shareholders



Our members represent all segments of agriculture in our territory.

\$12.7 million

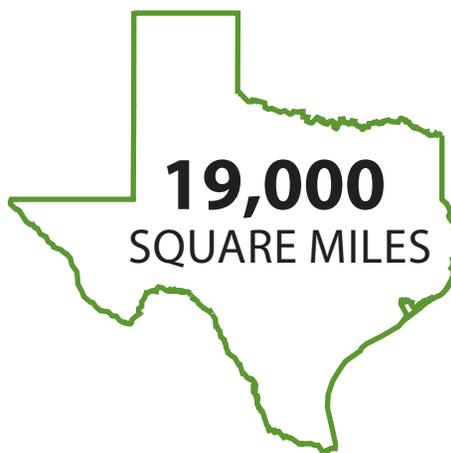
Total net income



\$8.3 million will be paid out to our members as patronage refunds. The remaining funds will be used to maintain the financial strength of CTFC.

OVER
98
PERCENT

98.6% of our loans were rated as acceptable.



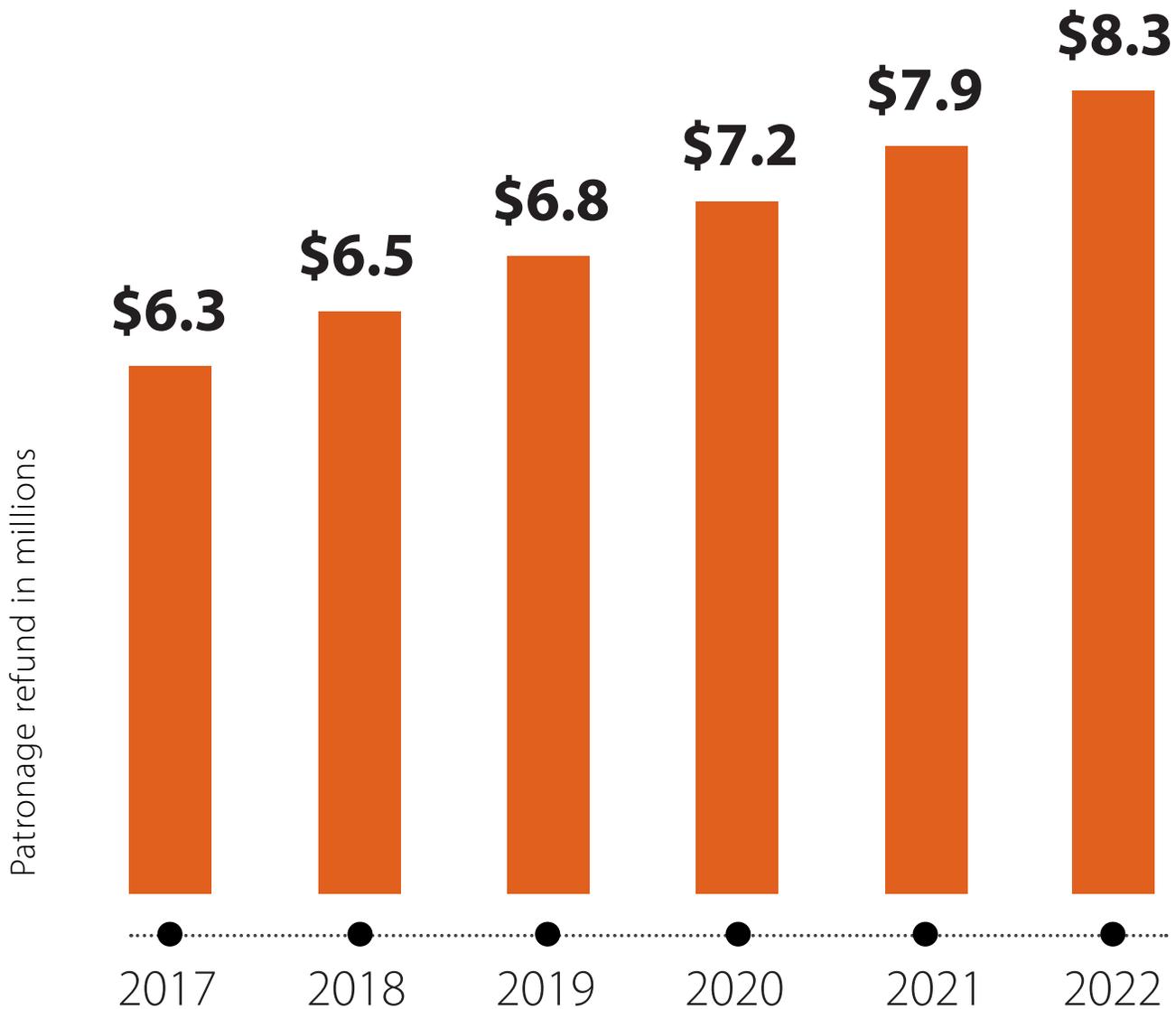
Our territory covers over 19,000 square miles across central and west Texas.

78
PERCENT

78% of new loans made in 2022 were to either young, beginning or small farmers and ranchers.

The Lender That Pays You Back

We are proud to return a record **\$8.3 million** patronage refund in 2023, thanks to our strong financial performance in 2022.



Our **all cash patronage refund** effectively reduced our average borrower's interest rate by 1.5 percentage points.

Leading in our Communities

We believe in supporting local organizations and helping to meet the needs of our rural communities. We strive to be a good corporate citizen and community contributor.

\$79,000

Total donations and sponsorships to youth in agriculture



\$15,000

Total donations to support Texas wildfire relief efforts



\$109,000

Total donations to agriculture and rural communities



Central Texas Farm Credit Team

Our lending staff has an average of 17 years of ag lending experience. As a mission-based organization, we are committed to agriculture in good times and bad.

60

Central Texas Farm Credit Employees



Our mission is to support agriculture and rural communities by providing a reliable source of credit and financial support.

“

We are totally satisfied with the service, knowledge, friendliness and ease of the process of the purchase and closing.

Vicki A.

”

“

CTFC helped turn a dream into a reality when they enabled us to buy a piece of property as a family in Coleman County.

*John & Sherri M.
Jensen M.*

”

“

Easy process, friendly people, great experience overall!

Andy C.

”

“

An amazing long-term relationship (since 1997).

Morris R.

”

“

Experience was exactly as expected. Everything went very smooth. No complaints. I'm sure I will be back for more.

Zane M.

”

“

Keep doing what you are doing. I really like the home-town farmers support I get.

Labin S.

”

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.



Boyd J. Chambers, Chief Executive Officer

March 9, 2023



Robby A. Halfmann, Chairman, Board of Directors

March 9, 2023



Keith Prater, Chief Financial Officer

March 9, 2023

REPORT OF AUDIT COMMITTEE

The Audit Committee (Committee) is composed of Burl D. Lowery, Robby A. Halfmann, Kenneth D. Harvick, Mike Finlay, Philip W. Hinds, Steven Lehrmann and Gerald Rogers. In 2022, 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 LLB (PwC) for 2022.

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, 2022, (audited consolidated financial statements) 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, 2022.

Audit Committee Members

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

March 9, 2023

CENTRAL TEXAS FARM CREDIT, ACA

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<u>Balance Sheet Data</u>					
<u>Assets</u>					
Cash	\$ 1	\$ 3	\$ 5	\$ 4	\$ 11
Loans	640,374	631,826	583,419	532,822	509,538
Less: allowance for loan losses	1,427	1,649	1,246	1,199	1,013
Net loans	<u>638,947</u>	<u>630,177</u>	<u>582,173</u>	<u>531,623</u>	<u>508,525</u>
Investment in and receivable from the Farm Credit Bank of Texas	13,216	10,372	9,657	9,441	8,873
Other assets	<u>13,052</u>	<u>12,085</u>	<u>10,511</u>	<u>10,115</u>	<u>9,212</u>
Total assets	<u>\$ 665,216</u>	<u>\$ 652,637</u>	<u>\$ 602,346</u>	<u>\$ 551,183</u>	<u>\$ 526,621</u>
<u>Liabilities</u>					
Obligations with maturities of one year or less	\$ 12,951	\$ 12,889	\$ 12,265	\$ 10,993	\$ 10,189
Obligations with maturities greater than one year	<u>527,858</u>	<u>520,021</u>	<u>473,590</u>	<u>427,049</u>	<u>405,943</u>
Total liabilities	<u>\$ 540,809</u>	<u>\$ 532,910</u>	<u>\$ 485,855</u>	<u>\$ 438,042</u>	<u>\$ 416,132</u>
<u>Members' Equity</u>					
Capital stock and participation certificates	\$ 2,025	\$ 2,118	\$ 2,209	\$ 2,236	\$ 2,258
Unallocated retained earnings	122,115	117,664	114,499	111,004	108,168
Accumulated other comprehensive income (loss)	267	(55)	(217)	(99)	63
Total members' equity	<u>124,407</u>	<u>119,727</u>	<u>116,491</u>	<u>113,141</u>	<u>110,489</u>
Total liabilities and members' equity	<u>\$ 665,216</u>	<u>\$ 652,637</u>	<u>\$ 602,346</u>	<u>\$ 551,183</u>	<u>\$ 526,621</u>
<u>Statement of Income Data</u>					
Net interest income	\$ 18,294	\$ 16,939	\$ 15,725	\$ 15,554	\$ 14,894
Loan loss reversal (provision for loan losses)	113	(383)	(451)	(674)	(815)
Income from the Farm Credit Bank of Texas	3,725	3,387	2,802	2,345	2,077
Other noninterest income	225	529	783	262	374
Noninterest expense	<u>(9,606)</u>	<u>(9,366)</u>	<u>(8,164)</u>	<u>(7,852)</u>	<u>(7,206)</u>
Net income	<u>\$ 12,751</u>	<u>\$ 11,106</u>	<u>\$ 10,695</u>	<u>\$ 9,635</u>	<u>\$ 9,324</u>
<u>Key Financial Ratios for the Year</u>					
Return on average assets	1.9%	1.8%	1.9%	1.8%	1.8%
Return on average members' equity	10.2%	9.2%	9.3%	8.5%	8.6%
Net interest income as a percentage of average earning assets	2.8%	2.8%	2.8%	3.0%	3.0%
Net charge-offs (recoveries) as a percentage of average loans	0.0%	0.0%	0.1%	0.1%	0.2%

CENTRAL TEXAS FARM CREDIT, ACA

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<u>Key Financial Ratios at Year-End *</u>					
Members' equity as a percentage of total assets	18.7%	18.3%	19.3%	20.5%	21.0%
Debt as a percentage of members' equity	434.7%	445.1%	417.1%	387.2%	376.6%
Allowance for loan losses as a percentage of loans	0.2%	0.3%	0.2%	0.2%	0.2%
Common equity tier 1 ratio	17.1%	17.2%	18.3%	19.2%	19.4%
Tier 1 capital ratio	17.1%	17.2%	18.3%	19.2%	19.4%
Total capital ratio	17.3%	17.5%	18.5%	19.4%	19.6%
Permanent capital ratio	17.1%	17.3%	18.3%	19.2%	19.4%
Tier 1 leverage ratio	17.8%	17.9%	19.2%	20.3%	20.6%
UREE leverage ratio	17.5%	19.0%	20.2%	21.3%	21.7%
<u>Net Income Distribution</u>					
Cash dividends	\$ 7,900	\$ 7,200	\$ 6,800	\$ 6,500	\$ 6,300

*Effective January 1, 2017, the new regulatory capital ratios were implemented by the Association. The Association's ratios remained well above the regulatory minimums, including the conservation and leverage buffers at December 31, 2022. For more information on the changes to regulatory capital ratios, see the Capital Resources section on Page 16.

**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, FLCA (Association) for the years ended December 31, 2022, 2021, and 2020 and should be read in conjunction with the accompanying consolidated financial statements. The accompanying 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 our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

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

Significant Events:

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 \$171,285 in patronage payment 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.

2020

In December 2020, the Association received a direct loan patronage of \$2,550,306 from the Bank, representing 57 basis points on the average daily balance of the Association's direct loan with the Bank. During 2020, the Association received an additional \$197,620 in patronage payments from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a capital markets patronage of \$54,749 from the Bank, representing 80 basis points on the Association's average balance of participations in the Bank's patronage pool program.

In March 2020, a patronage refund of \$6,800,000 was distributed to the Association's borrowers. The patronage refund was declared by the board of directors in December 2019, and the amount was based on the Association's 2019 operating results.

2019

In December 2019, the Association received a direct loan patronage of \$2,039,245 from the Bank, representing 49 basis points on the average daily balance of the Association's direct loan with the Bank. During 2019, the Association received \$241,777 in patronage payments from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a capital markets patronage of \$64,403 from the Bank, representing 68 basis points on the Association's average balance of participations in the Bank's patronage pool program.

In March 2019, a patronage refund of \$6,500,000 was distributed to the Association's borrowers. The patronage refund was declared by the board of directors in December 2018, and the amount was based on the Association's 2018 operating results.

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, LIBOR-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 comprising the majority of the mortgage loans. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

The composition of the Association's loan portfolio, including principal (less funds held) of \$640,374,007, \$631,826,004 and \$583,418,703 as of December 31, 2022, 2021 and 2020, respectively, is described more fully in detailed tables in Note 3 to the consolidated financial statements, "Loans and Allowance for Loan Losses," included in this annual report.

Territory Conditions:

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 spouse's employment, part-time jobs, investments, etc. The above is reflected in the Association's sound credit quality and small number of delinquencies.

According to the November USDA Drought Monitor report, all of our territories were in a drought ranging from severe to extreme. It was reported that only 13 percent of the state had received enough rain to not be considered dry or in drought. Moisture received in early fall had helped small grain emerge, but measurable rains had stopped by early December. Pasture conditions improved some in a few areas due to September rains, but without rains into December, pasture conditions in the state had slipped to 66 percent considered fair to poor from the 56 percent reported in Q3 2022.

The USDA's report "Texas Crop Progress and Condition" for the last week of November 2022 reported the cotton harvest was mostly completed. Condition of 70 percent of cotton acres was considered very poor to poor. Wheat acres were reported at 85 percent emerged, up 3 points from the previous year. Oat acres were reported 86 percent emerged, down 3 points from the previous year.

Cattle markets continued to climb in the fourth quarter. Live cattle futures were trading in the mid- \$150s/cwt near the end of December, and forward contracts were higher with April 2023 trading at \$160/cwt and December 2023 showing \$163/cwt. Feeder cattle had gotten as high as \$184/cwt in the fourth quarter, falling back to \$183/cwt in late December. Forward contracts indicated prices steadily climbing, with April 2023 trading at \$188/cwt and reaching \$207/cwt by November 2023.

Class III milk futures experienced volatile trading in the fourth quarter, hitting a high of just over \$22/cwt and a low in the upper \$18/cwt before settling at just over \$20/cwt toward the end of December. Forward contracts suggest pricing will continue to fluctuate in a range of \$18/cwt to \$20/cwt through most of 2023.

Most of our borrowers continue to do well right now, but many remain cautious due to volatile commodity markets. Management realizes the impact the current commodity environment could potentially have on borrowers. We feel our portfolio is managed very well, as operating loans are reviewed at least annually and, in some cases, more often. After considering current economic and commodity market conditions and no concentration in any one commodity, we believe that the risk ratings accurately reflect the risk level of the portfolio.

Problem Loans:

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.

2020

During the first quarter of 2020, the Association recorded a charge-off in the amount of \$290,338, and no recoveries were recorded. The Association recorded a charge-off in the amount of \$1,497 and a recovery in the amount of \$815 in the second quarter of 2020. During the third quarter of 2020, the Association recorded a charge-off in the amount of \$8,034, and no recoveries were recorded. The Association recorded charge-offs in the amount of \$133,107 and recoveries in the amount of \$9,271 in the fourth quarter of 2020.

2019

During the first quarter of 2019, the Association recorded charge-offs in the amount of \$16,434, and no recoveries were recorded. The Association recorded charge-offs in the amount of \$43,826, and no recoveries were recorded for the second quarter. In the third quarter of 2019, the Association recorded charge-offs in the amount of \$106,772 and no recoveries were recorded. The Association recorded charge-offs in the amount of \$296,833, with no recoveries recorded in the fourth quarter.

Purchase and Sales of Loans:

During 2022, 2021 and 2020, the Association was participating in loans with other lenders. As of December 31, 2022, 2021 and 2020, these participations totaled \$136,938,584, \$110,767,515 and \$107,135,014, or 21.4 percent, 17.5 percent and 18.4 percent of loans, respectively. The Association has also sold participations of \$27,171,688, \$23,580,309 and \$20,326,211 as of December 31, 2022, 2021 and 2020, respectively.

Risk Exposure:

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

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

	2022		2021		2020	
	Amount	%	Amount	%	Amount	%
Nonaccrual	\$ 2,847,641	100.0%	\$ 1,860,250	100.0%	\$ 216,326	100.0%
Total	\$ 2,847,641	100.0%	\$ 1,860,250	100.0%	\$ 216,326	100.0%

At December 31, 2022, 2021 and 2020, loans that were considered impaired were \$2,847,641, \$1,860,250 and \$216,326, representing 0.4 percent, 0.3 percent and 0.0 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

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 very 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 material impact on the expected collectability of said loans.

Allowance for Loan Losses:

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Allowance for loan losses	\$ 1,426,947	\$ 1,648,857	\$ 1,245,504
Allowance for loan losses to total loans	0.2%	0.3%	0.2%
Allowance for loan losses to nonaccrual loans	50.1%	88.6%	575.8%
Allowance for loan losses to impaired loans	50.1%	88.6%	575.8%
Net charge-offs to average loans	0.0%	0.0%	0.1%

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

Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of \$1,426,947, \$1,648,857 and \$1,245,504 at December 31, 2022, 2021 and 2020, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates.

Results of Operations:

The Association's net income for the year ended December 31, 2022, was \$12,750,883 as compared to \$11,106,059 for the year ended December 31, 2021, reflecting an increase of \$1,644,824, or 14.8 percent. The Association's net income for the year ended December 31, 2020, was \$10,695,290. Net income increased \$410,769, or 3.8 percent, in 2021 vs. 2020.

Net interest income for 2022, 2021, and 2020 was \$18,293,601, \$16,938,640 and \$15,724,878, respectively, reflecting increases of \$1,354,961, or 8.0 percent, for 2022 vs. 2021 and \$1,213,762, or 7.7 percent, for 2021 vs. 2020. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	<u>2022</u>		<u>2021</u>		<u>2020</u>	
	Average Balance	Interest	Average Balance	Interest	Average Balance	Interest
Loans	\$ 642,665,205	\$ 31,496,806	\$ 602,124,178	\$ 26,744,403	\$ 555,551,660	\$ 26,618,633
Interest-bearing liabilities	533,194,357	13,203,205	494,715,142	9,805,763	450,264,263	10,893,755
Impact of capital	<u>\$ 109,470,848</u>		<u>\$ 107,409,036</u>		<u>\$ 105,287,397</u>	
Net interest income		<u>\$ 18,293,601</u>		<u>\$ 16,938,640</u>		<u>\$ 15,724,878</u>

	<u>2022</u>	<u>2021</u>	<u>2020</u>
	Average Yield	Average Yield	Average Yield
Yield on loans	4.90%	4.44%	4.79%
Cost of interest-bearing liabilities	2.48%	1.98%	2.42%
Interest rate spread	2.42%	2.46%	2.37%

	2022 vs. 2021			2021 vs. 2020		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income - loans	\$ 1,800,711	\$ 2,951,692	\$ 4,752,403	\$ 2,231,476	\$ (2,105,706)	\$ 125,770
Interest expense	762,697	2,634,745	3,397,442	1,075,445	(2,163,437)	(1,087,992)
Net interest income	\$ 1,038,014	\$ 316,947	\$ 1,354,961	\$ 1,156,031	\$ 57,731	\$ 1,213,762

Interest income for 2022 increased by \$4,752,403, or 17.8 percent, compared to 2021, primarily due to an increase in yield on earning assets and an increase in average loan volume. Interest expense for 2022 increased by \$3,397,442, or 34.6 percent, compared to 2021 due to an increase in interest rates and an increase in average debt volume. The interest rate spread decreased by 4 basis points to 2.42 percent in 2022 from 2.46 percent in 2021. This was largely due to a increase in cost of funds. The interest rate spread increased by 9 basis points to 2.46 percent in 2021 from 2.37 percent in 2020. This was largely due to a decrease in the cost of funds offset by a decrease in yields. Net interest margin stayed virtually flat from 2021 through 2022.

Noninterest income for 2022 increased by \$34,381, or 0.9 percent, compared to 2021, due primarily to an increase in patronage from the Bank of \$337,744. Noninterest income for 2021 increased by \$330,685, or 9.2 percent, compared to 2020, due primarily to an increase in patronage from the Bank of \$584,221.

Provisions for loan losses decreased by \$495,770, or 129.5 percent, compared to 2021, due to late year payoffs and improved risk ratings.

Operating expenses consist primarily of salaries, employee benefits, insurance fund premiums and occupancy and equipment. Expenses for purchased services may include administrative services, marketing, information systems, accounting and loan processing. In 2022, operating expenses increased by \$240,288, or 2.6 percent. The increase in operating expenses was primarily due to an increase in insurance fund premiums of \$262,587, advertising costs of \$189,225 and occupancy and equipment costs of \$59,670.

For the year ended December 31, 2022, the Association's return on average assets was 1.9 percent, as compared to 1.8 percent and 1.9 percent for the years ended December 31, 2021 and 2020, respectively. For the year ended December 31, 2022, the Association's return on average members' equity was 10.2 percent, as compared to 9.2 percent and 9.3 percent for the years ended December 31, 2021 and 2020, respectively.

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

Liquidity and Funding Sources:

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

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$526,409,194, \$519,237,475 and \$472,763,164 as of December 31, 2022, 2021 and 2020, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 3.2 percent, 1.8 percent and 2.0 percent at December 31, 2022, 2021 and 2020, respectively. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2021, is due to loan growth. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$110,927,311, \$110,109,452 and \$108,276,376 at December 31, 2022, 2021 and 2020, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2022, was \$645,988,919 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2023, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The liquidity policy of the Association is to manage cash balances, maximize debt reduction and increase accrual loan volume. This policy will continue to be pursued during 2023. As borrower payments are received, they are applied to the Association's note payable to the Bank.

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

Capital Resources:

The Association's capital position remains strong, with total members' equity of \$124,406,607, \$119,726,439 and \$116,491,045 at December 31, 2022, 2021 and 2020, respectively. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-weighted assets as defined by the 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 institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The Association's permanent capital ratio at December 31, 2022, 2021 and 2020 was 17.1 percent, 17.3 percent and 18.3 percent, respectively. Refer to Note 9 in the "Notes to Consolidated Financial Statements" for further details about capital.

Significant Recent Accounting Pronouncements:

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

Regulatory Matters:

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

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

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

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

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

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

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

In 2022, 2021 and 2020, the Association paid patronage distributions of \$7,900,000, \$7,241,217 and \$6,800,000, respectively. In December 2022, the board of directors approved an \$8,300,000 patronage distribution to be paid in March 2023. See Note 9 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

Relationship With the Bank:

The Association's statutory obligation to borrow only from the Bank is discussed in Note 8 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

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

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis and in Note 8 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank provides computer systems to support the critical operations of all District associations. In addition, each association has operating systems and facility-based systems that are not supported by the Bank. As disclosed in Note 12 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the Bank provides many services that the Association can utilize, such as administrative, marketing, information systems and accounting services. Additionally, the Bank bills District expenses to the associations, such as the Farm Credit System Insurance Corporation insurance premiums.

Summary:

Over the past 106 years, regardless of the state of the agricultural economy, your Association's board of directors and management, as well as the board of directors and management of the Bank, have been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this Association.



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, 2022, 2021 and 2020, and the related consolidated statements of comprehensive income, changes in members' equity and cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery,

intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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

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

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

Other Information

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

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

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

Austin, Texas
March 9, 2023

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEETS

	December 31,		
	2022	2021	2020
<u>Assets</u>			
Cash	\$ 1,060	\$ 2,960	\$ 5,000
Loans	640,374,007	631,826,004	583,418,703
Less: allowance for loan losses	1,426,947	1,648,857	1,245,504
Net loans	638,947,060	630,177,147	582,173,199
Accrued interest receivable	7,243,702	6,307,042	6,052,438
Investment in and receivable from the Farm			
Credit Bank of Texas:			
Capital stock	10,644,260	9,810,495	8,932,315
Other	2,572,032	561,787	724,861
Premises and equipment	5,478,861	5,461,359	4,166,913
Other assets	328,671	316,131	291,286
Total assets	\$ 665,215,646	\$ 652,636,921	\$ 602,346,012
<u>Liabilities</u>			
Note payable to the Farm Credit Bank of Texas	\$ 526,409,194	\$ 519,237,475	\$ 472,763,164
Advance conditional payments	-	-	12,000
Accrued interest payable	1,449,051	784,241	827,136
Drafts outstanding	-	-	360,936
Dividends payable	8,300,000	7,900,000	7,200,000
Other liabilities	4,650,794	4,988,766	4,691,731
Total liabilities	540,809,039	532,910,482	485,854,967
<u>Members' Equity</u>			
Capital stock and participation certificates	2,025,230	2,117,870	2,208,715
Unallocated retained earnings	122,114,885	117,664,002	114,499,160
Accumulated other comprehensive income (loss)	266,492	(55,433)	(216,830)
Total members' equity	124,406,607	119,726,439	116,491,045
Total liabilities and members' equity	\$ 665,215,646	\$ 652,636,921	\$ 602,346,012

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

Central Texas Farm Credit, ACA — 2022 Annual Report

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2022	2021	2020
<u>Interest Income</u>			
Loans	\$ 31,496,806	\$ 26,744,403	\$ 26,618,633
<u>Interest Expense</u>			
Note payable to the Farm Credit Bank of Texas	13,203,205	9,805,763	10,893,755
Net interest income	18,293,601	16,938,640	15,724,878
<u>(Reversal of) Provision for Loan Losses</u>			
Net interest income after provision for loan losses	(113,057)	382,713	451,471
	18,406,658	16,555,927	15,273,407
<u>Noninterest Income</u>			
Income from the Farm Credit Bank of Texas:			
Patronage income	3,724,640	3,386,896	2,802,675
Loan fees	170,409	303,768	628,199
Financially related services income	6,240	5,785	5,948
(Loss) gain on sale of premises and equipment, net	(1,194)	190,993	-
Other noninterest income	50,620	28,892	148,827
Total noninterest income	3,950,715	3,916,334	3,585,649
<u>Noninterest Expenses</u>			
Salaries and employee benefits	5,525,987	5,836,664	5,211,322
Directors' expense	234,263	149,372	109,832
Purchased services	473,659	435,275	469,731
Travel	311,059	290,424	192,102
Occupancy and equipment	561,041	501,371	468,778
Communications	144,993	139,708	132,668
Advertising	306,729	117,504	119,583
Public and member relations	286,635	444,756	377,859
Supervisory and exam expense	249,776	229,148	220,064
Insurance Fund premiums	1,112,411	849,824	491,081
Other components of net periodic postretirement benefit cost	81,781	84,390	92,156
Other noninterest expense	318,156	287,766	278,590
Total noninterest expenses	9,606,490	9,366,202	8,163,766
NET INCOME	12,750,883	11,106,059	10,695,290
Other comprehensive income:			
Change in postretirement benefit plans	321,925	161,397	(118,075)
COMPREHENSIVE INCOME	\$ 13,072,808	\$ 11,267,456	\$ 10,577,215

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

Central Texas Farm Credit, ACA — 2022 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, 2019	\$ 2,235,805	\$ 111,003,870	\$ (98,755)	\$ 113,140,920
Comprehensive income	-	10,695,290	(118,075)	10,577,215
Capital stock/participation certificates issued	382,520	-	-	382,520
Capital stock/participation certificates and allocated retained earnings retired	(409,610)	-	-	(409,610)
Patronage dividends:				
Cash	-	(7,200,000)	-	(7,200,000)
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 and allocated retained earnings 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 and allocated retained earnings 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

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

Central Texas Farm Credit, ACA — 2022 Annual Report

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2022	2021	2020
Cash flows from operating activities:			
Net income	\$ 12,750,883	\$ 11,106,059	\$ 10,695,290
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for (loan loss reversal) loan losses	(113,057)	382,713	451,471
Depreciation, amortization, and accretion	518,797	586,286	542,146
(Gain) loss on sale of premises and equipment, net	(1,194)	190,993	-
(Increase) decrease in accrued interest receivable	(936,660)	(254,604)	52,276
(Increase) decrease in other receivable from the Farm Credit Bank of Texas	(2,010,245)	163,074	444,370
Increase in other assets	(12,540)	(24,845)	(15,411)
Increase (decrease) in accrued interest payable	664,810	(42,895)	(236,100)
(Decrease) increase in other liabilities	(27,809)	479,072	398,212
Net cash provided by operating activities	10,832,985	12,585,853	12,332,254
Cash flows from investing activities:			
Increase in loans, net	(8,877,584)	(48,720,299)	(51,288,554)
Cash recoveries of loans previously charged off	-	-	10,086
Proceeds from purchase of investment in the Farm Credit Bank of Texas	(833,765)	(878,180)	(660,760)
Purchases of premises and equipment	(305,003)	(1,761,091)	(779,898)
Proceeds from sales of premises and equipment	2,388	2,364	63,996
Net cash used in investing activities	(10,013,964)	(51,357,206)	(52,655,130)

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

Central Texas Farm Credit, ACA — 2022 Annual Report

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2022	2021	2020
Cash flows from financing activities:			
Net draws on note payable to the Farm Credit Bank of Texas	7,171,719	46,474,311	46,777,994
(Decrease) increase in drafts outstanding	-	(360,936)	360,936
(Decrease) increase in advance conditional payments	-	(12,000)	12,000
Issuance of capital stock and participation certificates	281,287	365,410	382,520
Retirement of capital stock and participation certificates	(373,927)	(456,255)	(409,610)
Cash dividends paid	(7,900,000)	(7,241,217)	(6,800,000)
Net cash (used in) provided by financing activities	(820,921)	38,769,313	40,323,840
Net (decrease) increase in cash	(1,900)	(2,040)	964
Cash at the beginning of the year	2,960	5,000	4,036
Cash at the end of the year	\$ 1,060	\$ 2,960	\$ 5,000
 Supplemental schedule of noncash investing and financing activities:			
Loans charged off	\$ 97,091	\$ -	\$ 432,976
Dividends declared	8,300,000	7,900,000	7,200,000
Transfer of allowance for loan losses (into) from reserve for unfunded commitments	(11,762)	20,640	17,849
 Supplemental cash flow information:			
Cash paid during the year for:			
Interest	\$ 12,538,395	\$ 9,848,658	\$ 11,129,855

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

Central Texas Farm Credit, ACA — 2022 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, 2022, the System consisted of three Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

The Farm Credit Bank of Texas (Bank) and its related associations are collectively referred to as the “District.” The Bank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. At December 31, 2022, the District consisted of the Bank, one FLCA and 13 ACA parent companies, which have two wholly owned subsidiaries, a 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 Association.

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

- B. Operations: The Act sets forth the types of authorized lending activity, people 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. Upon request, stockholders of the Association will be provided with the Farm Credit Bank of Texas Annual Report to Stockholders.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation and Consolidation

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

Use of Estimates

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

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (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:

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

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

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

In March 2020, the FASB issued guidance titled “Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The Association 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 Loan Losses: 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. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Authoritative accounting guidance requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield.

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

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

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

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

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

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk-rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories

that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a “9” to other assets especially mentioned (OAEM) and grows significantly as a loan moves to a substandard (viable) level. A substandard (nonviable) rating indicates that the probability of default is almost certain.

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

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

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

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

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

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

- E. Other Property Owned, Net: Other property owned, net, consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure and is recorded at fair value less estimated selling costs upon acquisition and is included in other assets in the consolidated balance sheet. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains (losses) on other property owned in the statements of comprehensive income.
- F. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized.

- G. **Advance Conditional Payments:** The Association is authorized under the Act to accept advance payments from borrowers. To the extent that the borrower's access to such funds is restricted, the advance conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheet. Advance conditional payments are not insured. Interest is generally paid by the Association on such accounts at rates established by the board of directors.
- H. **Employee Benefit Plans:** Employees of the Association participate in either the District defined benefit retirement plan (DB plan) or the defined contribution plan (DC plan). All eligible employees may participate in the Farm Credit Benefits Alliance 401(k) Plan. The DB plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB plan is noncontributory and provides benefits based on salary and years of service. The "projected unit credit" actuarial method is used for financial reporting and funding purposes for the DB plan.

Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC plan direct the placement of their employers' contributions, 5 percent of eligible pay for the year ended December 31, 2022, made on their behalf into various investment alternatives.

The structure of the District's DB plan is characterized as multiemployer, because neither the assets, liabilities nor costs of the plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. The Association recognized pension costs for the DC plan of \$231,956, \$238,742 and \$216,454 for the years ended December 31, 2022, 2021 and 2020 respectively. For the DB plan, the Association recognized pension costs of \$461,421, \$600,939 and \$425,434 for the years ended December 31, 2022, 2021 and 2020, respectively.

The Association also participates in the Farm Credit Benefits Alliance 401(k) Plan, which requires the associations to match 100 percent of employee contributions up to 3 percent of eligible earnings and to match 50 percent of employee contributions for the next 2 percent of employee contributions, up to a maximum employer contribution of 4 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The Association's contributions to the 401(k) plan were \$186,002, \$189,482 and \$176,892 for the years ended December 31, 2022, 2021 and 2020, respectively.

In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multiemployer and, consequently, the liability for these benefits is included in other liabilities on the consolidated balance sheet.

- 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 and 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 LOAN LOSSES:

A summary of loans as of December 31 follows:

Loan Type	2022		2021		2020	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 456,460,621	71.3%	\$ 432,840,207	68.5%	\$ 389,570,763	66.8%
Production and intermediate term	78,334,756	12.2%	91,867,182	14.5%	86,436,067	14.8%
Agribusiness:						
Processing and marketing	51,786,443	8.1%	50,768,509	8.0%	50,364,765	8.6%
Farm-related business	19,545,152	3.1%	26,831,944	4.3%	18,324,995	3.1%
Loans to cooperatives	6,266,947	1.0%	3,135,393	0.5%	15,112,607	2.6%
Communication	13,625,571	2.1%	13,393,063	2.1%	13,728,641	2.4%
Energy	5,104,698	0.8%	6,862,903	1.1%	7,969,728	1.4%
Water and waste water	4,669,377	0.7%	801,802	0.1%	1,041,994	0.2%
International loans	3,915,065	0.6%	4,233,783	0.7%	-	0.0%
Rural residential real estate	665,377	0.1%	1,091,218	0.2%	869,143	0.1%
Total	\$ 640,374,007	100.0%	\$ 631,826,004	100.0%	\$ 583,418,703	100.0%

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

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Agribusiness	\$ 61,170,502	\$ 3,848,573	\$ -	\$ -	\$ 61,170,502
Real estate mortgage	28,512,320	16,029,574	-	-	28,512,320	16,029,574
Production and intermediate term	19,941,051	7,293,541	-	-	19,941,051	7,293,541
Communication	13,625,571	-	-	-	13,625,571	-
Energy	5,104,698	-	-	-	5,104,698	-
Water and waste water	4,669,377	-	-	-	4,669,377	-
International	3,915,065	-	-	-	3,915,065	-
Total	\$ 136,938,584	\$ 27,171,688	\$ -	\$ -	\$ 136,938,584	\$ 27,171,688

Geographic Distribution:

County	2022	2021	2020
Comanche	10.2%	10.0%	10.8%
Tom Green	9.2%	10.5%	9.1%
Brown	4.7%	5.1%	7.3%
Coleman	4.2%	3.2%	5.6%
Runnels	3.8%	4.2%	5.3%
Taylor	3.3%	4.0%	1.0%
Deaf Smith	3.2%	3.6%	1.9%
Knox	2.8%	3.0%	3.5%
McCulloch	2.8%	3.3%	6.9%
Dallas	2.5%	1.3%	0.0%
Travis	2.4%	2.4%	0.0%
Midland	2.1%	2.3%	0.7%
Jones	1.8%	2.0%	3.7%
Cherokee	1.8%	1.3%	0.5%
Mills	1.4%	1.7%	2.0%
Williamson	1.3%	1.2%	0.0%
Ector	1.2%	1.4%	0.0%
Collin	1.0%	0.0%	0.0%
Callahan	1.0%	1.2%	3.0%
Denton	1.0%	1.2%	0.0%
Concho	0.9%	1.2%	2.7%
Haskell	0.9%	0.0%	0.0%
Other Counties	16.8%	17.5%	19.0%
Other States	19.7%	18.4%	17.0%
Totals	100.0%	100.0%	100.0%

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 loan losses.

Operation/Commodity	2022		2021		2020	
	Amount	%	Amount	%	Amount	%
Livestock, except dairy and poultry	\$ 312,659,930	48.8%	\$ 309,788,215	49.0%	\$ 287,418,844	49.3%
Dairy farms	50,157,462	7.8%	49,496,361	7.8%	42,215,388	7.2%
Field crops except cash grains	46,301,591	7.2%	54,123,534	8.6%	50,202,844	8.6%
Hunting, trapping and game propagation	35,504,868	5.5%	36,164,021	5.7%	33,897,371	5.8%
Food and kindred products	28,733,622	4.5%	20,555,219	3.3%	20,112,507	3.4%
General farms, primarily crops	27,490,146	4.3%	30,642,217	4.8%	26,793,461	4.6%
Wholesale trade - nondurable goods	27,292,674	4.3%	27,924,202	4.4%	27,898,257	4.8%
Cash grains	22,413,138	3.5%	17,735,902	2.8%	18,070,874	3.1%
Paper and allied products	14,083,927	2.2%	11,184,662	1.8%	6,839,466	1.2%
Communication	11,669,311	1.8%	11,156,560	1.8%	12,400,212	2.1%
Timber	11,044,962	1.7%	12,274,422	1.9%	11,313,094	1.9%
Agricultural services	9,796,702	1.5%	12,823,075	2.0%	15,266,517	2.6%
Fruit and tree nuts	9,238,904	1.4%	7,282,304	1.1%	5,084,502	0.9%
Chemical and allied products	8,419,476	1.3%	13,158,206	2.1%	8,874,651	1.5%
Electric services	5,269,304	0.8%	7,041,654	1.1%	7,969,728	1.4%
Lumber and wood products, except furniture	3,649,110	0.6%	1,197,642	0.2%	562,037	0.1%
Poultry and eggs	3,326,020	0.5%	-	0.0%	-	0.0%
Real estate	2,459,331	0.4%	2,236,503	0.4%	1,328,429	0.2%
Fish hatcheries and preserves	1,825,703	0.3%	-	0.0%	-	0.0%
Animal specialties	1,373,684	0.2%	268,505	0.0%	-	0.0%
General farms, primarily livestock	859,186	0.1%	-	0.0%	1,016,688	0.2%
Rural home loans	568,004	0.1%	454,807	0.1%	652,880	0.1%
Farm and garden machinery equipment	524,870	0.1%	398,540	0.1%	1,546,968	0.3%
Horticultural specialties	253,104	0.0%	-	0.0%	-	0.0%
Tobacco products	-	0.0%	2,067,580	0.3%	1,939,149	0.3%
Food stores	-	0.0%	348,294	0.1%	-	0.0%
Other	5,458,978	1.1%	3,503,579	0.6%	2,014,836	0.4%
Total	\$ 640,374,007	100.0%	\$ 631,826,004	100.0%	\$ 583,418,703	100.0%

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

To mitigate the risk of loan losses, the Association has obtained loan guarantees in the form of standby commitments to purchase qualifying loans from Farmer Mac through an arrangement with the Bank. The agreements, which will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of defaults (typically four months past due), subject to certain conditions. At December 31, 2022, 2021 and 2020, loans totaling \$23,606,454, \$25,090,709 and \$26,502,055, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled \$127,437, \$134,962 and \$103,813 in 2022, 2021 and 2020, respectively, and are included in "other noninterest expense."

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

	December 31, 2022	December 31, 2021	December 31, 2020
Nonaccrual loans:			
Agribusiness	\$ 1,845,550	\$ -	\$ -
Energy	783,159	1,826,585	-
Real estate mortgage	218,932	33,665	216,326
Total nonaccrual loans	2,847,641	1,860,250	216,326
Total nonperforming loans	2,847,641	1,860,250	216,326
Total nonperforming assets	\$ 2,847,641	\$ 1,860,250	\$ 216,326

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

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

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

	<u>2022</u>		<u>2021</u>		<u>2020</u>
Real estate mortgage					
Acceptable	99.3	%	98.8	%	99.2
OAEM	0.3		0.5		0.2
Substandard/doubtful	0.4		0.7		0.6
	100.0		100.0		100.0
Production and intermediate term					
Acceptable	99.7		97.1		98.2
OAEM	0.2		2.2		0.8
Substandard/doubtful	0.1		0.7		1.0
	100.0		100.0		100.0
Agribusiness					
Acceptable	94.0		97.8		96.4
OAEM	1.4		-		3.6
Substandard/doubtful	4.6		2.2		-
	100.0		100.0		100.0
Energy					
Acceptable	84.7		73.4		91.3
OAEM	-		-		-
Substandard/doubtful	15.3		26.6		8.7
	100.0		100.0		100.0
Communication					
Acceptable	100.0		100.0		100.0
OAEM	-		-		-
Substandard/doubtful	-		-		-
	100.0		100.0		100.0
Rural residential real estate					
Acceptable	100.0		100.0		100.0
OAEM	-		-		-
Substandard/doubtful	-		-		-
	100.0		100.0		100.0
Water and waste water					
Acceptable	100.0		100.0		100.0
OAEM	-		-		-
Substandard/doubtful	-		-		-
	100.0		100.0		100.0
International loans					
Acceptable	100.0		100.0		-
OAEM	-		-		-
Substandard/doubtful	-		-		-
	100.0		100.0		-
Total Loans					
Acceptable	98.6		98.2		98.5
OAEM	0.4		0.6		0.8
Substandard/doubtful	1.0		1.2		0.7
	100.0	%	100.0	%	100.0

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

December 31, 2022:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 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	-
Communication	-	-	-	13,685,742	13,685,742	-
Loans to cooperatives	-	-	-	6,274,924	6,274,924	-
Energy	-	957	957	5,142,329	5,143,286	-
Water and waste water	-	-	-	4,670,861	4,670,861	-
International	-	-	-	3,951,160	3,951,160	-
Rural residential real estate	-	-	-	666,642	666,642	-
Total	\$ 1,218,836	\$ 144,167	\$ 1,363,003	\$ 646,254,706	\$ 647,617,709	\$ -

December 31, 2021:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	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	-
Communication	-	-	-	13,395,104	13,395,104	-
Loans to cooperatives	-	-	-	3,136,410	3,136,410	-
Energy	-	1,248,898	1,248,898	5,617,274	6,866,172	-
Water and waste water	-	-	-	801,838	801,838	-
International	-	-	-	4,241,460	4,241,460	-
Rural residential real estate	-	-	-	1,093,859	1,093,859	-
Total	\$ 471,097	\$ 1,248,898	\$ 1,719,995	\$ 636,413,051	\$ 638,133,046	\$ -

December 31, 2020:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 594,591	\$ -	\$ 594,591	\$ 393,328,336	\$ 393,922,927	\$ -
Production and intermediate term	30,790	-	30,790	87,358,920	87,389,710	-
Processing and marketing	-	-	-	50,429,714	50,429,714	-
Farm-related business	-	-	-	18,386,262	18,386,262	-
Communication	-	-	-	13,729,402	13,729,402	-
Loans to cooperatives	-	-	-	15,721,350	15,721,350	-
Energy	-	-	-	7,977,863	7,977,863	-
Water and waste water	-	-	-	1,042,056	1,042,056	-
International	-	-	-	-	-	-
Rural residential real estate	-	-	-	871,857	871,857	-
Total	\$ 625,381	\$ -	\$ 625,381	\$ 588,845,760	\$ 589,471,141	\$ -

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

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

As of December 31, 2022, the Association had a troubled debt restructured loan with a recorded investment of \$337,706, classified as nonaccrual, with \$67,406 specific allowance for loan losses. In restructuring where principal is forgiven, the amount of forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest).

The predominant form of concession granted for troubled debt restructuring is the extension of the term. Other types of modifications include accrued interest reductions, interest rate decreases and delayed payments, among others. At times, these terms

might be offset with incremental payments, collateral or new borrower guarantees, in which case the Association assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/2022	Unpaid Principal Balance ^a	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ -	\$ -	\$ -	\$ -	\$ -
Production and intermediate term	-	-	-	-	-
Processing and marketing	1,842,871	1,853,425	95,361	1,582,538	6,735
Energy and water/waste water	783,159	880,612	221,573	1,782,384	-
Total	\$ 2,626,030	\$ 2,734,037	\$ 316,934	\$ 3,364,922	\$ 6,735
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 218,932	\$ 218,932	\$ -	\$ 135,225	\$ 5,768
Production and intermediate term	-	-	-	-	-
Processing and marketing	2,679	16,532	-	16,710	22,324
Energy and water/waste water	-	-	-	-	-
Total	\$ 221,611	\$ 235,464	\$ -	\$ 151,935	\$ 28,092
Total impaired loans:					
Real estate mortgage	\$ 218,932	\$ 218,932	\$ -	\$ 135,225	\$ 5,768
Production and intermediate term	-	-	-	-	-
Processing and marketing	1,845,550	1,869,957	95,361	1,599,248	29,059
Energy and water/waste water	783,159	880,612	221,573	1,782,384	-
Total	\$ 2,847,641	\$ 2,969,501	\$ 316,934	\$ 3,516,857	\$ 34,827

^aUnpaid principal balance represents the recorded principal balance of the loan.

	Recorded Investment at 12/31/2021	Unpaid Principal Balance ^a	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ -	\$ -	\$ -	\$ -	\$ -
Production and intermediate term	-	-	-	-	-
Processing and marketing	-	-	-	-	-
Energy and water/waste water	1,826,585	1,827,624	372,917	1,351,941	2,137
Total	\$ 1,826,585	\$ 1,827,624	\$ 372,917	\$ 1,351,941	\$ 2,137
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 33,665	\$ 33,665	\$ -	\$ 37,215	\$ -
Production and intermediate term	-	-	-	-	-
Processing and marketing	-	-	-	-	-
Energy and water/waste water	-	-	-	-	-
Total	\$ 33,665	\$ 33,665	\$ -	\$ 37,215	\$ -
Total impaired loans:					
Real estate mortgage	\$ 33,665	\$ 33,665	\$ -	\$ 37,215	\$ -
Production and intermediate term	-	-	-	-	-
Processing and marketing	-	-	-	-	-
Energy and water/waste water	1,826,585	1,827,624	372,917	1,351,941	2,137
Total	\$ 1,860,250	\$ 1,861,289	\$ 372,917	\$ 1,389,156	\$ 2,137

^aUnpaid principal balance represents the recorded principal balance of the loan.

	Recorded Investment at 12/31/2020	Unpaid Principal Balance ^a	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ -	\$ -	\$ -	\$ -	\$ -
Production and intermediate term	-	-	-	-	-
Processing and marketing	-	-	-	-	-
Energy and water/waste water	-	-	-	-	-
Total	\$ -	\$ -	\$ -	\$ -	\$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 216,326	\$ 216,326	\$ -	\$ 226,000	\$ 75
Production and intermediate term	-	-	-	-	-
Processing and marketing	-	-	-	-	-
Energy and water/waste water	-	-	-	-	-
Total	\$ 216,326	\$ 216,326	\$ -	\$ 226,000	\$ 75
Total impaired loans:					
Real estate mortgage	\$ 216,326	\$ 216,326	\$ -	\$ 226,000	\$ 75
Production and intermediate term	-	-	-	-	-
Processing and marketing	-	-	-	-	-
Energy and water/waste water	-	-	-	-	-
Total	\$ 216,326	\$ 216,326	\$ -	\$ 226,000	\$ 75

^aUnpaid principal balance represents the recorded principal balance of the loan.

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

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

	2022	2021	2020
Interest income which would have been recognized under the original terms	\$ 230,486	\$ 59,169	\$ 18,598
Less: interest income recognized	(34,827)	(2,137)	(75)
Foregone interest income	\$ 195,659	\$ 57,032	\$ 18,523

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy and Water/ Waste Water	Rural Residential Real Estate	International	Total
Allowance for Credit Losses:								
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	-	-	-	-	-	-	-	-
Provision for loan losses	(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	\$ 305,431	\$ 270,913	\$ 577,823	\$ 32,844	\$ 235,182	\$ 233	\$ 4,521	\$ 1,426,947
Ending Balance:								
individually evaluated for impairment	\$ -	\$ -	\$ 95,361	\$ -	\$ 221,573	\$ -	\$ -	\$ 316,934
Ending Balance:								
collectively evaluated for impairment	\$ 305,431	\$ 270,913	\$ 482,462	\$ 32,844	\$ 13,609	\$ 233	\$ 4,521	\$ 1,110,013
Recorded Investment in Loans Outstanding:								
Ending Balance at								
December 31, 2022	\$ 462,096,718	\$ 79,445,145	\$ 77,958,155	\$ 13,685,742	\$ 9,814,147	\$ 666,642	\$ 3,951,160	\$ 647,617,709
Ending balance for loans individually evaluated for impairment	\$ 218,932	\$ -	\$ 1,845,550	\$ -	\$ 783,159	\$ -	\$ -	\$ 2,847,641
Ending balance for loans collectively evaluated for impairment	\$ 461,877,786	\$ 79,445,145	\$ 76,112,605	\$ 13,685,742	\$ 9,030,988	\$ 666,642	\$ 3,951,160	\$ 644,770,068
	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy and Water/ Waste Water	Rural Residential Real Estate	International	Total
Allowance for Credit Losses:								
Balance at								
December 31, 2020	\$ 263,100	\$ 387,617	\$ 437,456	\$ 37,003	\$ 119,964	\$ 364	\$ -	\$ 1,245,504
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	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	\$ 359,949	\$ 405,304	\$ 459,979	\$ 32,536	\$ 380,728	\$ 1,386	\$ 8,975	\$ 1,648,857
Ending Balance:								
individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ 372,917	\$ -	\$ -	\$ 372,917
Ending Balance:								
collectively evaluated for impairment	\$ 359,949	\$ 405,304	\$ 459,979	\$ 32,536	\$ 7,811	\$ 1,386	\$ 8,975	\$ 1,275,940
Recorded Investment in Loans Outstanding:								
Ending Balance at								
December 31, 2021	\$ 437,991,348	\$ 92,791,088	\$ 80,952,177	\$ 13,395,104	\$ 7,668,010	\$ 1,093,859	\$ 4,241,460	\$ 638,133,046
Ending balance for loans individually evaluated for impairment	\$ 33,665	\$ -	\$ -	\$ -	\$ 1,826,585	\$ -	\$ -	\$ 1,860,250
Ending balance for loans collectively evaluated for impairment	\$ 437,957,683	\$ 92,791,088	\$ 80,952,177	\$ 13,395,104	\$ 5,841,425	\$ 1,093,859	\$ 4,241,460	\$ 636,272,796

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy and Water/ Waste Water	Rural Residential Real Estate	International	Total
Allowance for Credit Losses:								
Balance at								
December 31, 2019	\$ 301,326	\$ 376,462	\$ 344,949	\$ 39,210	\$ 136,701	\$ 426	\$ -	\$ 1,199,074
Charge-offs	-	(334,579)	-	-	(98,397)	-	-	(432,976)
Recoveries	-	10,086	-	-	-	-	-	10,086
Provision for loan losses	(38,226)	348,725	138,757	(2,171)	4,448	(62)	-	451,471
Other	-	(13,077)	(46,250)	(36)	77,212	-	-	17,849
Balance at								
December 31, 2020	\$ 263,100	\$ 387,617	\$ 437,456	\$ 37,003	\$ 119,964	\$ 364	\$ -	\$ 1,245,504
Ending Balance: individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ending Balance: collectively evaluated for impairment	\$ 263,100	\$ 387,617	\$ 437,456	\$ 37,003	\$ 119,964	\$ 364	\$ -	\$ 1,245,504
Recorded Investment in Loans Outstanding:								
Ending Balance at								
December 31, 2020	\$ 393,922,927	\$ 87,389,710	\$ 84,537,326	\$ 13,729,402	\$ 9,019,919	\$ 871,857	\$ -	\$ 589,471,141
Ending balance for loans individually evaluated for impairment	\$ 216,326	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 216,326
Ending balance for loans collectively evaluated for impairment	\$ 393,706,601	\$ 87,389,710	\$ 84,537,326	\$ 13,729,402	\$ 9,019,919	\$ 871,857	\$ -	\$ 589,254,815

NOTE 4 — LEASES:

The components of lease expense were as follows:

	Balance Sheet Classification	December 31, 2022	December 31, 2021	Adjustment
Operating leases	Operating lease right-of-use asset-building	\$ 21,978	\$ 37,680	\$ -
Total lease assets		\$ 21,978	\$ 37,680	\$ -
Operating leases	Operating lease right-of-use liabilities-building	\$ 30,509	\$ 51,979	\$ -
Total lease liabilities		\$ 30,509	\$ 51,979	\$ -

Other information related to leases was as follows:

	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	\$ 22,680	\$ 22,680
Right-of-use assets obtained in exchange for new lease obligations:		
Operating leases	\$ 21,978	\$ 37,680

Lease term and discount rate are as follows:

	December 31, 2022
Weighted average remaining lease term in years	
Operating leases	1.33
Weighted average discount rate	
Operating leases	3.22

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

	<u>Total</u>
2023	\$ 25,009
2024	8,872
2025	-
2026	-
2027	-
Thereafter	-
Total	<u>\$ 33,881</u>

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

The investment in the Farm Credit Bank of Texas is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying consolidated balance sheet. Estimating the fair value of the Association's investment in the Farm Credit Bank of Texas is not practicable, because the stock is not traded. The Association owned 2.26 percent of the issued stock of the Bank as of December 31, 2022. As of that date, the Bank's earnings were \$35.99 billion, and members' equity totaled \$1.62 billion. The Bank's earnings were \$269.9 million during 2022.

NOTE 6 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Building and improvements	\$ 5,353,263	\$ 5,146,987	\$ 3,756,622
Land and improvements	817,724	817,724	852,945
Furniture and equipment	562,810	548,650	491,076
Automobiles	497,283	523,927	557,031
Computer equipment and software	174,141	160,547	158,884
Construction in progress	25,924	-	123,591
	<u>7,431,145</u>	<u>7,197,835</u>	<u>5,940,149</u>
Accumulated depreciation	<u>(1,952,284)</u>	<u>(1,736,476)</u>	<u>(1,773,236)</u>
Total	<u>\$ 5,478,861</u>	<u>\$ 5,461,359</u>	<u>\$ 4,166,913</u>

The Association leases office space in Abilene, Texas. Lease expense was \$16,912 for 2022, 2021 and 2020.

NOTE 7 — OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Accounts Receivable	\$ 261,908	\$ 233,630	\$ 226,053
Other Assets	66,763	82,501	65,233
Total	<u>\$ 328,671</u>	<u>\$ 316,131</u>	<u>\$ 291,286</u>

Other liabilities comprised the following at December 31:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Postretirement Benefits Liability	\$ 1,806,422	\$ 2,132,142	\$ 2,289,611
Accounts Payable	1,105,513	1,387,954	1,339,925
FCS Insurance Premium Payable	1,000,892	739,944	400,263
Accrued Annual Leave	354,158	327,358	282,998
Allowance on Unfunded Loans	225,323	213,562	234,202
Other Liabilities	158,486	187,806	144,732
Total	<u>\$ 4,650,794</u>	<u>\$ 4,988,766</u>	<u>\$ 4,691,731</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. 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 general financing agreement, which is September 30, 2023, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The total amount and the weighted average interest rate of the Association's direct loan from the Bank at December 31, 2022, 2021 and 2020 was \$526,409,194 at 3.2 percent, \$519,237,475 at 1.8 percent and \$472,763,164 at 2.0 percent, respectively.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2022, 2021 and 2020, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2022, was \$645,988,919, as defined by the general financing agreement.

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 general financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits or repayment of indebtedness. As of and for the years ended December 31, 2022, 2021 and 2020, the Association was not subject to remedies associated with the covenants in the general financing agreement.

NOTE 9 — MEMBERS' EQUITY:

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, and 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, 2022, 2021 and 2020, the Association had no Class C stock.

All borrower stock is at-risk. As such, losses that result in impairment of capital stock or participation certificates shall be borne on a pro rata basis by all holders of 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 2022, 2021 and 2020, the Association declared annual patronage distributions of \$8,300,000, \$7,900,000 and \$7,200,000, respectively.

The Farm Credit Administration sets minimum regulatory capital requirements for banks and associations. Effective January 1, 2017, new regulatory capital requirements for banks and associations were adopted. These new requirements replaced the core surplus and total surplus requirements with Common equity tier 1, Tier 1 capital and Total capital risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System banks with a Tier 1 leverage ratio and an Unallocated Retained Earnings (URE) and URE Equivalents leverage ratio that are applicable to both the banks and associations. The Permanent Capital Ratio continues to remain in effect; however, the risk-weighted assets are calculated differently than in the past. As of December 31, 2022, the Association is not prohibited from retiring stock or distributing earnings.

The following sets forth the regulatory capital ratio requirements and ratios at December 31, 2022:

<u>Risk-weighted:</u>	Regulatory Minimums	Regulatory Minimums with Buffer	As of December 31, 2022
Common equity tier 1 ratio	4.50%	7.00%	17.05%
Tier 1 capital ratio	6.00%	8.50%	17.05%
Total capital ratio	8.00%	10.50%	17.32%
Permanent capital ratio	7.00%	7.00%	17.09%
<u>Non-risk-weighted:</u>			
Tier 1 leverage ratio	4.00%	5.00%	17.82%
UREE leverage ratio	1.50%	1.50%	17.51%

Risk-weighted assets have been defined by FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes 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 of less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

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

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

- Common equity Tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of seven years, allocated equities held for a minimum of seven years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-weighted assets.
- Tier 1 capital ratio is common equity Tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-weighted assets.
- Total capital is Tier 1 capital plus other required borrower stock held for a minimum of five years, allocated equities held for a minimum of five years, subordinated debt and limited-life preferred stock greater than five years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-weighted assets.
- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-weighted assets.
- Tier 1 leverage ratio is Tier 1 capital (at least 1.5 percent must be URE and URE equivalents), including regulatory deductions, divided by average assets less regulatory deductions subject to Tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to Tier 1 capital.

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

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

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	\$ 124,857,280	\$ 124,857,280	\$ 124,857,280	\$ 124,857,280
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	2,044,366	2,044,366	2,044,366	2,044,366
Allowance for loan losses and reserve for credit losses subject to certain limitations*	-	-	1,893,320	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(9,838,287)	(9,838,287)	(9,838,287)	(9,838,287)
	<u>\$ 117,063,359</u>	<u>\$ 117,063,359</u>	<u>\$ 118,956,679</u>	<u>\$ 117,063,359</u>
Denominator:				
Risk-adjusted assets excluding allowance	\$ 696,624,219	\$ 696,624,219	\$ 696,624,219	\$ 696,624,219
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(9,838,287)	(9,838,287)	(9,838,287)	(9,838,287)
Allowance for loan losses	-	-	-	(1,671,343)
	<u>\$ 686,785,932</u>	<u>\$ 686,785,932</u>	<u>\$ 686,785,932</u>	<u>\$ 685,114,589</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, 2022:

(dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	\$ 124,857,280	\$ 124,857,280
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	2,044,366	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(9,838,287)	(9,838,287)
	<u>\$ 117,063,359</u>	<u>\$ 115,018,993</u>
Denominator:		
Total Assets	\$ 671,302,546	\$ 671,302,546
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(14,314,526)	(14,314,526)
	<u>\$ 656,988,020</u>	<u>\$ 656,988,020</u>

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets 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 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:

	<u>2022</u>	2021	2020
Class A stock	<u>401,711</u>	419,479	437,870
Participation certificates	<u>3,335</u>	4,095	3,873
Total	<u>405,046</u>	423,574	441,743

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, 2022

Nonpension postretirement benefits

Before Tax	Deferred Tax	Net of Tax
<u>\$ 266,492</u>	<u>\$ -</u>	<u>\$ 266,492</u>

December 31, 2021

Nonpension postretirement benefits

Before Tax	Deferred Tax	Net of Tax
<u>\$ (55,433)</u>	<u>\$ -</u>	<u>\$ (55,433)</u>

December 31, 2020

Nonpension postretirement benefits

Before Tax	Deferred Tax	Net of Tax
<u>\$ (216,830)</u>	<u>\$ -</u>	<u>\$ (216,830)</u>

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Accumulated other comprehensive loss at January 1	\$ (55,433)	\$ (216,830)	\$ (98,755)
Actuarial gains (losses)	342,400	172,965	(97,600)
Amortization of actuarial (gain) loss included in salaries and employee benefits	<u>(20,475)</u>	<u>(11,568)</u>	<u>(20,475)</u>
Other comprehensive income (loss), net of tax	<u>321,925</u>	<u>161,397</u>	<u>(118,075)</u>
Accumulated other comprehensive income (loss) at December 31	<u>\$ 266,492</u>	<u>\$ (55,433)</u>	<u>\$ (216,830)</u>

NOTE 10 — INCOME TAXES:

There was no provision for income taxes for the years ended December 31, 2022, 2021, or 2020.

The provision for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows for the years ended December 31:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Federal tax at statutory rate	\$ 2,680,009	\$ 2,332,272	\$ 2,246,011
Effect of nontaxable FLCA subsidiary	(2,277,027)	(1,974,420)	(1,924,798)
Patronage distributions	(365,693)	(346,257)	(326,919)
Change in valuation allowance	<u>(37,289)</u>	<u>(11,595)</u>	<u>5,706</u>
Provision for income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>
<u>Deferred Tax Assets</u>			
Allowance for loan losses	\$ 65,630	\$ 102,919	\$ 114,515
Loss carryforwards	585,778	585,778	585,778
Gross deferred tax assets	<u>651,408</u>	<u>688,697</u>	<u>700,293</u>
Deferred tax asset valuation allowance	<u>(651,408)</u>	<u>(688,697)</u>	<u>(700,293)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Association recorded valuation allowances of \$651,408, \$688,697, and \$700,293 during 2022, 2021, and 2020, respectively. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), 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 and at December 31, 2022, 2021, and 2020, 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 18 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.

The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

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 I 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 plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon District combination only. The Association records current contributions to the DB plan as an expense in the current year.

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

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

There were no payments made from the supplemental 401(k) plan to active employees during 2022, 2021 and 2020.

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

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

- a. Assets contributed to the multiemployer 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 multiemployer plans, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Funded status of plan	70.9 %	70.5 %	62.6 %
Association's contribution	\$ 461,421	\$ 600,939	\$ 425,434
Percentage of Association's contribution to total contributions	4.4 %	4.0 %	7.1 %

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

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities.

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

Retiree Welfare Benefit Plans

Disclosure Information Related to Retirement Benefits	2022	2021	2020
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	\$ 2,132,142	\$ 2,289,611	\$ 2,151,006
Service cost	35,017	36,857	39,468
Interest cost	65,696	62,904	73,163
Plan participants' contributions	19,281	22,883	25,881
Actuarial (gain) loss	(342,400)	(172,965)	97,600
Benefits paid	<u>(103,314)</u>	<u>(107,148)</u>	<u>(97,507)</u>
Accumulated postretirement benefit obligation, end of year	\$ 1,806,422	\$ 2,132,142	\$ 2,289,611
Change in Plan Assets			
Employer contributions	\$ 84,033	\$ 84,265	\$ 71,626
Plan participants' contributions	19,281	22,883	25,881
Benefits paid	<u>(103,314)</u>	<u>(107,148)</u>	<u>(97,507)</u>
Plan assets at fair value, end of year	\$ -	\$ -	\$ -
Funded status of the plan	\$ (1,806,422)	\$ (2,132,142)	\$ (2,289,611)
Amounts Recognized on the Statement of Financial Position			
Other liabilities	\$ (1,806,422)	\$ 2,132,142	\$ (2,289,611)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial (gain) loss	\$ (241,102)	\$ 101,298	\$ 283,170
Prior service credit	<u>(25,390)</u>	<u>(45,865)</u>	<u>(66,340)</u>
Total	\$ (266,492)	\$ 55,433	\$ 216,830
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	12/31/2022	12/31/2021	12/31/2020
Discount rate	5.20%	3.15%	2.80%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	7.20%/7.70%	6.80%/6.00%	6.90%/6.40%
Ultimate health care cost trend rate	4.50%	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2031/2031	2030/2030	2028/2029

Total Cost	2022	2021	2020
Service cost	\$ 35,017	\$ 36,857	\$ 39,468
Interest cost	65,696	62,904	73,163
Amortization of:			
Unrecognized prior service credit	(20,475)	(20,475)	(20,475)
Unrecognized net loss	-	8,907	-
Net postretirement benefit cost	\$ 80,238	\$ 88,193	\$ 92,156

**Other Changes in Plan Assets and Projected Benefit Obligation
Recognized in Other Comprehensive Income**

Net actuarial (gain) loss	\$ (342,400)	\$ (172,965)	\$ 97,600
Amortization of net actuarial gain	-	(8,907)	-
Amortization of prior service credit	20,475	20,475	20,475
Total recognized in other comprehensive income	\$ (321,925)	\$ (161,397)	\$ 118,075

AOCI Amounts Expected to be Amortized Into Expense in 2023

Unrecognized prior service credit	\$ (20,475)
Unrecognized net gain	(11,740)
Total	\$ (32,215)

Weighted-Average Assumptions Used to Determine Benefit Cost

	12/31/2021	12/31/2020	12/31/2019
Measurement date			
Discount rate	3.15%	2.80%	3.45%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	6.80%/6.00%	6.60%/6.20%	6.90%/6.40%
Ultimate health care cost trend rate	4.50%	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2030/2030	2029/2029	2028/2029

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)

Fiscal 2023	\$ 74,876
Fiscal 2024	86,707
Fiscal 2025	94,218
Fiscal 2026	91,118
Fiscal 2027	88,940
Fiscal 2028–2032	540,669

Expected Contributions

Fiscal 2023	\$ 74,876
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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 people 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, 2022, 2021 and 2020 for the Association amounted to \$3,319,000, \$3,544,898 and \$4,041,238. During 2022, \$848,654 of new loans were made, and repayments totaled \$1,474,120. In the opinion of management, no such loans outstanding at December 31, 2022, 2021 and 2020 involved more than a normal risk of collectability.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems and accounting services and allocations of expenses incurred by the Bank and passed through to the associations, such as FCSIC expenses. The Bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled \$188,940, \$178,211 and \$176,062 in 2022, 2021 and 2020, respectively.

The Association received patronage payments from the Bank totaling \$3,724,640, \$3,386,896 and \$2,802,675 during 2022, 2021 and 2020, 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 and liabilities measured at fair value on a recurring basis at December 31, 2022, 2021 and 2020. Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2022, 2021 and 2020 for each of the fair value hierarchy values are summarized below:

December 31, 2022	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ 2,309,096	\$ 2,309,096
December 31, 2021	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ 1,453,667	\$ 1,453,667
December 31, 2020	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ -	\$ -

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

	December 31, 2022				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	\$ 1,060	\$ 1,060	\$ -	\$ -	\$ 1,060
Net loans	636,637,964	-	-	587,816,064	587,816,064
Total Assets	<u>\$ 636,639,024</u>	<u>\$ 1,060</u>	<u>\$ -</u>	<u>\$ 587,816,064</u>	<u>\$ 587,817,124</u>
Liabilities:					
Note payable to Bank	\$ 526,409,194	\$ -	\$ -	\$ 486,110,678	\$ 486,110,678
Total Liabilities	<u>\$ 526,409,194</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 486,110,678</u>	<u>\$ 486,110,678</u>

December 31, 2021
Fair Value Measurement Using

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

December 31, 2020
Fair Value Measurement Using

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	\$ 5,000	\$ 5,000	\$ -	\$ -	\$ 5,000
Net loans	582,173,199	-	-	594,075,365	594,075,365
Total Assets	\$ 582,178,199	\$ 5,000	\$ -	\$ 594,075,365	\$ 594,080,365
Liabilities:					
Note payable to Bank	\$ 472,763,164	\$ -	\$ -	\$ 482,407,877	\$ 482,407,877
Total Liabilities	\$ 472,763,164	\$ -	\$ -	\$ 482,407,877	\$ 482,407,877

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

With regard to 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 Recurring and Nonrecurring Level 3 Fair Value Measurements:

	<u>Valuation Technique(s)</u>	<u>Input</u>
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. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

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, 2022, \$112,847,766 of commitments and \$484,337 of commercial letters of credit were outstanding.

NOTE 15 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

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

	2022				
	First	Second	Third	Fourth	Total
Net interest income	\$ 4,452	\$ 4,509	\$ 4,616	\$ 4,717	\$ 18,294
(Provision for) reversal of loan losses	(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
(Provision for) reversal of loan losses	(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

	2020				
	First	Second	Third	Fourth	Total
Net interest income	\$ 3,933	\$ 3,827	\$ 3,906	\$ 4,059	\$ 15,725
(Provision for) reversal of loan losses	(321)	(96)	(9)	(25)	(451)
Noninterest expense, net	(1,242)	(1,150)	(1,259)	(928)	(4,579)
Net income	\$ 2,370	\$ 2,581	\$ 2,638	\$ 3,106	\$ 10,695

NOTE 16 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through March 9, 2023, which is the date the financial statements were issued or available to be issued, and has determined that there were no other events requiring disclosure.

DISCLOSURE INFORMATION AND INDEX

(Unaudited)

Disclosures Required by Farm Credit Administration Regulations

DESCRIPTION OF BUSINESS

The description of the territory served, the people 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 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 Bank, as discussed in Note 1 to the consolidated financial statements, “Organization and Operations,” included in this annual report. The financial condition and results of operations of the Bank may materially affect the stockholders’ investment in the Association.

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

The Association’s quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter-end and can be obtained by writing to 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 emailing Keith.Prater@farmcreditbank.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, 2022, required to be disclosed, is incorporated herein by reference to the “Five-Year Summary of Selected Consolidated Financial Data,” included in this annual report to stockholders.

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

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

DIRECTORS AND SENIOR OFFICERS

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

NAME	POSITIONS	DATE ELECTED/	
		EMPLOYED	TERM EXPIRES
Robby A. Halfmann	Chairman	2008	2023
Kenneth D. Harvick	Vice Chairman	2012	2025
Mike Finlay	Director	2008	2024
Philip W. Hinds	Director	2009	2024
Steven R. Lehrmann	Director	2014	2023
Burl D. Lowery	Director-Elected Director	2013	2024
Gerald L. Rodgers	Director-Elected Director	2022	2025
Boyd J. Chambers	Chief Executive Officer	2006	
Travis B. McKinney	Chief Lending Officer	2000	
Zach May	Chief Operating Officer	2009	
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 42 – 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 foreman and an order buyer for Frey Cattle Company. 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 2023.

Kenneth D. Harvick – age 71 – 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 74 – 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 operation. 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 65 – 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.

Burl D. Lowery – age 72 – 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-appointed 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.

Steven Lehrmann – age 68 – 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, hay, and cotton 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 2023.

Gerald Rodgers – age 64 – 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 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.

Boyd J. Chambers – age 62 – Mr. Chambers has served as the chief executive officer of the Association since 2011, and that is his principal occupation. He previously served as the Association's executive vice president and chief credit officer. Prior to joining the Association in 2006, Mr. Chambers served as vice president of lending with Southwest Texas, ACA. He graduated from Sul Ross State University with a bachelor's degree in agricultural business. Mr. Chambers has been employed in the Farm Credit System since 1987.

Travis B. McKinney – age 46 – Mr. McKinney has served as the chief lending officer of the Association since January 1, 2022, and that is his principal occupation. Before transitioning to that role, he served as the chief credit officer beginning in 2013. Mr. McKinney has also held the roles of 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.

Zach May – age 44 – Mr. May has served as the chief operating officer of the Association since 2011, and that is his principal occupation. He previously 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.

Keith Prater – age 48 – 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 46 – 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 has been employed in the Farm Credit System since 2000.

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 2022 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 July 1, 2022, from 58.5 cents to 62.5 cents).

Director	Number of Days Served Associated With		Total Compensation in 2022
	Board Meetings	Other Official Activities	
Robby A. Halfmann	11	19	\$ 24,000
Kenneth D. Harvick	9	13	18,150
Mike Finlay	10	15	18,800
Philip W. Hinds	10	15	19,350
Burl D. Lowery	11	12	21,200
Steven Lehrmann	11	20	21,750
Gerald Rodgers	4	8	10,000
			\$ 122,650

The aggregate compensation paid to directors in 2022, 2021, and 2020 was \$122,650, \$110,250 and \$78,350, respectively. Additional detail regarding director compensation paid for committee service (included in the table above) is as follows for 2022:

	Compensation Committee
Robby A. Halfmann	\$ 800
Kenneth D. Harvick	800
Mike Finlay	800
Philip W. Hinds	800
Burl D. Lowery	800
Steven Lehrmann	800
Gerald Rodgers	400
	\$ 5,200

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was \$31,100.15, \$39,122 and \$30,256, in 2022, 2021 and 2020, 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. Changes in pension value in the table below represent the change in actuarial value of the CEO’s defined benefit pension plan. Changes in this value are based on additional years of service, compensation increases or decreases, plan amendments and increases or decreases in the year the compensation was earned.

Summary Compensation Table

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

Name of Individual or Number in Group (a)	Year	Salary (b)	Bonus (c)	Change in Pension Value (d)	Deferred/Perquisite (e)	Other (f)	Total
Boyd J. Chambers							
CEO	2022	\$ 325,000	\$ 95,078	\$ -	\$ 24,073	\$ -	\$ 444,151
	2021	\$ 315,000	\$ 121,701	\$ (54,496)	\$ 24,733	\$ 1,000	\$ 407,938
	2020	\$ 290,011	\$ 116,376	\$ 630,149	\$ 23,428	\$ 1,500	\$ 1,061,464
Aggregate Number of Senior Officers (& other highly compensated employees, if applicable)							
5	2022	\$ 831,611	\$ 235,503	\$ -	\$ 123,090	\$ -	\$ 1,190,204
5	2021	\$ 794,818	\$ 335,799	\$ -	\$ 131,368	\$ 5,000	\$ 1,266,985
5	2020	\$ 742,152	\$ 291,896	\$ -	\$ 123,807	\$ 1,000	\$ 1,158,855

- (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 arrangements of the compensation plans 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 Table

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to the CEO for the year ended December 31, 2022:

<u>Name</u>	<u>Plan Name</u>	<u>Number of Years Credited Service</u>	<u>Present Value of Accumulated Benefit</u>	<u>Payments During 2022</u>
Boyd J. Chambers	Farm Credit Bank of Texas Pension Plan	33	\$ -	\$ 3,140,623

<u>Name</u>	<u>Plan Name</u>	<u>Average Number of Years Credited Service</u>	<u>Present Value of Accumulated Benefit</u>	<u>Payments During 2022</u>
Aggregate Number of Senior Officers (& other highly compensated employees) (0)	Farm Credit Bank of Texas Pension Plan	-	\$ -	\$ -

Pension Benefits Table Narrative Disclosure

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.

In preparation for his retirement in 2023, the CEO opted for a lump-sum payout of his pension benefit. This amount is reflected in the above Pension Benefits Table in the Payments During 2022 column.

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 2022 at the IRS-approved rate of 58.5 cents per mile.

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

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

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

The Association’s policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 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 2022 were \$104,320 for audit services.

RELATIONSHIP WITH UNINCORPORATED BUSINESS ENTITIES

The Association has business relationships with Central Texas Holding, LLC, and FCBT Biostar B, LLC, which are limited liability companies, 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 9, 2023, and the report of management in this annual report to stockholders, are incorporated herein by reference.

MEMBER/SHAREHOLDER PRIVACY

Members' nonpublic personal financial information is protected by Farm Credit Administration regulation. Our 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

The Association and its directors, officers and employees have committed to conducting business in accordance with the highest ethical standards as set forth in the Association's Standard of Conduct Policy relating to ethical conduct, conflicts of interest and compliance with the law.

This Code of Ethics applies to the board chairman, board members, officers and all other Association employees. The Association is responsible for the preparation and distribution of its financial statements and related disclosures and for providing relevant information that is true, accurate and complete to the Federal Farm Credit Bank's Funding Corporation for use in preparing the Farm Credit System financial statements and related disclosures.

The Association expects all of its directors, officers and other employees to act in accordance with the highest standards of personal and professional integrity in all aspects of their activities, to comply with all applicable laws, rules and regulations, to deter wrongdoing and abide by its Standards of Conduct Policy and other policies and procedures approved by the board of directors and employed by the Association that governs their conduct. This Code of Ethics is intended to supplement the Association's Standard of Conduct Policy.

Each director, officer, and employee agree to:

- Engage in and promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships.
- Avoid conflicts of interest and disclose to the Association's Standard of Conduct Official any material transaction or relationship that reasonably could be expected to give rise to a conflict of interest or gives the appearance of a conflict of interest.
- Take all reasonable measures to protect the confidentiality of nonpublic information about the Association and its customers obtained or created in connection with its activities and to prevent the unauthorized disclosure of this information unless required by applicable law or regulation or legal or regulatory process.
- Produce full, fair, accurate, timely and understandable disclosure in Association financial statements and related financial reports or communications as well as Association reports and documents filed with, or submitted to, the Funding Corporation and the Farm Credit Association.
- Comply with applicable governmental laws, rules and regulations, as well as the rules and regulations of self-regulatory agreements to which the Association is a party.
- Promptly report any possible violation of this Code of Ethics to the Association's Standards of Conduct Official.

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 director, officer or employee 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 mission of Central Texas Farm Credit is to partner with young, beginning and small (YBS) agricultural producers and rural communities by providing a reliable source of credit and financial support.

DEFINITIONS

1. Young Borrower: A farmer, rancher or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
2. Beginning Borrower: A farmer, rancher or producer or harvester of aquatic products who has 10 years or less farming, ranching or aquatic experience as of the loan transaction date.
3. Small Borrower: A farmer, rancher or producer or harvester of aquatic products who normally generates less than \$250,000 in annual gross sales of agricultural products at the date the loan was originally made.

STRATEGY

To accomplish the mission, the Association will provide:

1. Utilization of 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-amortization, deferments, extensions, renewals and other techniques will be made available to program borrowers to the fullest extent possible within policies.

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 CEO will have primary responsibility for a) developing staff expertise in meeting the special financing and related services needs of program applicants; b) implementing the Association program; and c) developing and submitting reports on the program.

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

The Association board of directors will monitor this program to ensure that adequate financial human resources and an appropriate risk management philosophy exist. The program will also be monitored to ensure that objectives are being met without compromising the ability of the Association to serve nonprogram farmers, ranchers and producers of aquatic products. The board will monitor this program through reports on the program’s progress to the board by the CEO at least quarterly.

4. The offering of guidance and financial assistance to this specialized group of farmers 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 recordkeeping, financial analysis and management, leasing, capital investment decision-making, marketing strategies, and other such management areas. In addition, our financial support will be given to extension service and young farmer groups to sponsor seminars, field days and special events.

The Association will also expand the criteria used to determine a full-time farmer to include those 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 must have 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 his or her 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 agricultural production.
- 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 program are implemented for the benefit of all YBS farmers and ranchers. Our goal is to ensure that these borrowers have the opportunity to begin or grow their agricultural operation or remain in agricultural production.

TARGETS

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

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

As of the end of the fourth quarter of 2022, the number of YBS loans in the Association’s portfolio is as follows:

Young Farmers:

There were 409 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:

There were 1,016 loans to this group of borrowers. This equates to 46 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:

There were 1,638 loans to this group of borrowers. This equates to 74 percent of the total number of loans in our portfolio and 50 percent of the total number of small farmers with debt in our territory cited in the 2017 Census.

The Association will continue all efforts to target those remaining YBS farmers and ranchers in our territory through the use of outreach programs, including but not limited to, advertising, participating in educational programs, working with extension agents, participations in agricultural field days, livestock shows and agricultural seminars, etc. In addition, Association loan officers and senior management will offer credit counseling and work with other financial institutions to the extent possible to ensure the credit needs of these borrowers are met.

GOALS

The Association's goal for 2022 was to have at least 60 percent of all new loans go to borrowers who meet one or more of the YBS criteria. This goal was met as of December 31, 2022. The goal in the 2023-2025 Strategic Business Plan will again be that 60 percent of all new loans should be to borrowers who meet one or more of the YBS criteria.

REPORTING

The Association will incorporate the goals of its YBS Program into the Strategic Business Plan, shall report the performance results to the board of directors at least quarterly and to the District Bank annually and include in its annual report a description of the YBS Program and a status report on each component thereof. In addition, the Association shall continue to post its annual report, with the YBS Program information, on its website.

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