

# **CENTRAL TEXAS FARM CREDIT, ACA**

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## **2024 Quarterly Report First Quarter**



**For the Quarter Ended March 31, 2024**

## REPORT OF MANAGEMENT

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



Zach May, Chief Executive Officer  
*May 10, 2024*



Robby A. Halfmann, Chairman, Board of Directors  
*May 10, 2024*



Keith Prater, Chief Financial Officer  
*May 10, 2024*

# *First Quarter 2024 Financial Report*

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## **CENTRAL TEXAS FARM CREDIT, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following commentary reviews the financial performance of the Central Texas Farm Credit, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended March 31, 2024. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2023 Annual Report to Stockholders.

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

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

### **Significant Events:**

#### 2024

In March 2024, a patronage refund of \$8,600,000 was distributed to the Association's borrowers. The patronage refund was declared by the board of directors in December 2023, and the amount was based on the Association's 2023 operating results.

#### 2023

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

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

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

#### 2022

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

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

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

### **Loan Portfolio:**

Total loans outstanding at March 31, 2024, including nonaccrual loans and sales contracts, were \$693,400,281 compared to \$693,934,819 at December 31, 2023, reflecting a decrease of 0.1 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.3 percent on March 31, 2024 and December 31, 2023.

The Association recorded \$0 in recoveries and \$0 in charge-offs for the quarter ended March 31, 2024, and no recoveries and charge-offs for the period ending March 31, 2023. The Association's allowance for credit losses were 0.3 percent of total loans outstanding as of March 31, 2024, and December 31, 2023, respectively.

## Territory Conditions:

The local economy in our chartered territory continued to remain relatively strong in the first quarter of 2024. Real estate values have stabilized with residential and land sales slowing some due to rising costs of construction and higher interest rates.

The majority of the Association's new loans made during the past number of years have been to absentee landowners with diverse income sources looking for a place for a small agricultural operation or recreational use. As a result, the Association has a diversified portfolio that is not heavily dependent on agricultural income. Even those borrowers who are primarily agricultural producers typically have outside income from a 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 a March 2024 USDA Drought Monitor report, most of our territory was considered abnormally dry or back to normal conditions thanks to the continued El Nino rains in the first quarter of 2024. It was reported that 55.21 percent of the state had received enough rain to not be considered dry or in drought. Pasture conditions improved in most areas of the territory but were still considered fair to poor.

The USDA's "Crop Progress" report for the last week of March 2024 reported 20 percent of wheat acres in Texas were headed with 74 percent of the crop rated fair to good. Oats were reported 26 percent headed and crop condition considered 71 percent fair to good. Cotton planting was just starting with 5 percent of the acres planted.

Cattle markets continued to remain strong in the first quarter of 2024. The futures board in March for feeder cattle was around \$250/cwt with forward contract prices reaching the \$260/cwt range by August 2024. Live cattle were \$186/cwt on the nearby April contract but showed some volatility through December 2024 with a dip to \$179/cwt on the forward August contract. Lower inventories and higher demand for beef continued to be the support for this market.

Milk prices on the futures board continued to float in the \$15 to \$16/cwt range through March 2024. Forward contracts showed some improvement by June with prices hitting the \$17/cwt range and upper \$18/cwt range by October of 2024.

## Risk Exposure

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

	High-Risk Assets			
	March 31, 2024		December 31, 2023	
	Amount	%	Amount	%
Nonaccrual	\$ 2,216,926	100.0%	\$ 2,106,070	100.0%
Nonperforming assets	\$ 2,216,926	100.0%	\$ 2,106,070	100.0%

## Results of Operations

The Association had net income of \$2,848,261 for the three months ended March 31, 2024, as compared to net income of \$3,167,382 for the same period in 2023, reflecting a decrease of 10.1 percent due to a reduction in the accrual of direct loan patronage as compared to the prior year. Net interest income was \$5,274,438 for the three months ended March 31, 2024, compared to \$4,875,338 for the same period in 2023.

	Three Months Ended:			
	March 31, 2024		March 31, 2023	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 692,587,446	\$ 11,205,778	\$ 655,898,044	\$ 9,500,503
Interest-bearing liabilities	576,802,646	5,931,340	541,840,525	4,625,165
Impact of capital	<u>\$ 115,784,800</u>		<u>\$ 114,057,519</u>	
Net interest income		<u>\$ 5,274,438</u>		<u>\$ 4,875,338</u>

  

	2024	2023
	Average Yield	Average Yield
Yield on loans	6.51%	5.87%
Cost of interest-bearing liabilities	4.14%	3.46%
Interest rate spread	2.37%	2.41%
Net interest income as a percentage of average earning assets	3.06%	3.01%

	Three Months ended: March 31, 2024 vs. March 31, 2023		
	Increase due to		
	Volume	Rate	Total
Interest income - loans	\$ 535,876	\$ 1,169,399	\$ 1,705,275
Interest expense	300,926	1,005,249	1,306,175
Net interest income	<u>\$ 234,950</u>	<u>\$ 164,150</u>	<u>\$ 399,100</u>

Interest income for the three months ended March 31, 2024, increased by \$1,705,275, or 17.9 percent, from the same period of 2023, primarily due to an increase in yields on earning assets and an increase in average loan volume. Interest expense for the three months ended March 31, 2024, increased by \$1,306,175, or 28.2 percent, from the same period of 2023 due to an increase in interest rates and an increase in average debt volume. Average loan volume for the first quarter of 2024 was \$692,587,446, compared to \$655,898,044 in the first quarter of 2023. The average net interest rate spread on the loan portfolio for the first quarter of 2024 was 2.37 percent, compared to 2.41 percent in the first quarter of 2023.

The Association's return on average assets for the three months ended March 31, 2024, was 1.60 percent compared to 1.84 percent for the same period in 2023. The Association's return on average equity for the three months ended March 31, 2024, was 8.92 percent, compared to 9.95 percent for the same period in 2023.

## Liquidity and Funding Sources

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

	March 31, 2024	December 31, 2023
Note payable to the Bank	\$ 577,417,372	\$ 577,651,441
Accrued interest on note payable	2,015,149	1,927,681
Total	<u>\$ 579,432,521</u>	<u>\$ 579,579,122</u>

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2026. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$577,417,372 as of March 31, 2024, is recorded as a liability on the Association's balance sheet. The note carried a weighted average

interest rate of 4.17 percent at March 31, 2024. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the GFA. The decrease in note payable to the Bank and increase in related accrued interest payable since December 31, 2023, is due to the Association's decrease in loan volume. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$111,934,242 at March 31, 2024. The maximum amount the Association may borrow from the Bank as of March 31, 2024, was \$700,017,999 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, which is September 30, 2026, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

### **Capital Resources**

The Association's capital position increased by \$2,844,614 at March 31, 2024, compared to December 31, 2023. The Association's debt as a percentage of members' equity was 4.52:1 as of March 31, 2024, compared to 4.66:1 as of December 31, 2023.

Farm Credit Administration regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of March 31, 2024, the Association exceeded all regulatory capital requirements.

### **Significant Recent Accounting Pronouncements**

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

### **Relationship With the Farm Credit Bank of Texas**

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2023 Annual Report of Association more fully describe the Association's relationship with the Bank.

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

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Central Texas Farm Credit, ACA, 1026 Early Boulevard, Early, Texas, 76802, or calling (325) 643-5563. The annual and quarterly stockholder reports for the Association are also available on its website at [www.centraltexasfarmcredit.com](http://www.centraltexasfarmcredit.com). Copies of the Association's quarterly stockholder reports can also be requested by e-mailing [Keith.Prater@farmcreditbank.com](mailto:Keith.Prater@farmcreditbank.com).

**CENTRAL TEXAS FARM CREDIT, ACA**

**CONSOLIDATED BALANCE SHEETS**

	<b>March 31, 2024 (unaudited)</b>	<b>December 31, 2023</b>
<b><u>ASSETS</u></b>		
Cash	\$ 3,560	\$ 4,835
Loans	693,400,281	693,934,819
Less: allowance for credit losses on loans	1,949,554	1,776,641
Net loans	<u>691,450,727</u>	<u>692,158,178</u>
Accrued interest receivable	8,597,736	8,774,133
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	11,363,305	11,363,305
Other	-	1,280,994
Premises and equipment, net	6,127,314	6,031,224
Other assets	732,375	281,343
Total assets	<u>\$ 718,275,017</u>	<u>\$ 719,894,012</u>
<b><u>LIABILITIES</u></b>		
Note payable to the Farm Credit Bank of Texas	\$ 577,417,372	\$ 577,651,441
Other payables to the Farm Credit Bank of Texas	94,738	-
Advance conditional payments	309	309
Accrued interest payable	2,015,149	1,927,681
Dividends payable	-	8,600,000
Other liabilities	8,757,901	4,569,647
Total liabilities	<u>588,285,469</u>	<u>592,749,078</u>
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	2,003,070	2,004,125
Unallocated retained earnings	127,770,381	124,922,120
Accumulated other comprehensive income	216,097	218,689
Total members' equity	<u>129,989,548</u>	<u>127,144,934</u>
Total liabilities and members' equity	<u>\$ 718,275,017</u>	<u>\$ 719,894,012</u>

**CENTRAL TEXAS FARM CREDIT, ACA**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<u>2024</u>	<u>2023</u>
<b><u>INTEREST INCOME</u></b>		
Loans	\$ 11,205,778	\$ 9,500,503
<b><u>INTEREST EXPENSE</u></b>		
Note payable to the Farm Credit Bank of Texas	5,931,340	4,625,165
Net interest income	<u>5,274,438</u>	<u>4,875,338</u>
<b><u>PROVISION FOR (REVERSAL OF) CREDIT LOSSES</u></b>		
Net interest income after provision for (reversal of) credit losses	<u>160,042</u>	<u>(96,542)</u>
<b><u>NONINTEREST INCOME</u></b>		
Income from the Farm Credit Bank of Texas:		
Patronage income	403,551	845,635
Loan fees	39,212	34,629
Financially related services income	4,449	4,363
Other noninterest income	3,439	807
Total noninterest income	<u>450,651</u>	<u>885,434</u>
<b><u>NONINTEREST EXPENSES</u></b>		
Salaries and employee benefits	1,577,650	1,432,742
Directors' expense	38,202	49,657
Purchased services	156,115	206,671
Travel	46,312	47,988
Occupancy and equipment	180,582	179,327
Communications	32,420	35,653
Advertising	123,769	108,140
Public and member relations	92,687	84,654
Supervisory and exam expense	70,348	63,683
Insurance fund premiums	262,552	356,016
Other components of net periodic postretirement benefit cost	26,865	20,223
Other noninterest expense	109,284	105,178
Total noninterest expenses	<u>2,716,786</u>	<u>2,689,932</u>
<b>NET INCOME</b>	<u>2,848,261</u>	<u>3,167,382</u>
Other comprehensive income:		
Change in postretirement benefit plans	<u>(2,592)</u>	<u>(8,055)</u>
<b>COMPREHENSIVE INCOME</b>	<u>\$ 2,845,669</u>	<u>\$ 3,159,327</u>

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

CENTRAL TEXAS FARM CREDIT, ACA

**CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY**  
(unaudited)

	<b>Capital Stock/ Participation Certificates</b>	<b>Unallocated Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total Members' Equity</b>
Balance at December 31, 2022	\$ 2,025,230	\$ 122,114,885	\$ 266,492	\$ 124,406,607
Cumulative effect of change in accounting principle (Note 1)	-	253,393	-	253,393
Balance at January 1, 2023	2,025,230	122,368,278	266,492	124,660,000
Comprehensive income	-	3,167,382	(8,055)	3,159,327
Capital stock/participation certificates and allocated retained earnings issued	58,765	-	-	58,765
Capital stock/participation certificates and allocated retained earnings retired	(73,015)	-	-	(73,015)
Patronage refunds:				
Cash	-	(7,074)	-	(7,074)
<b>Balance at March 31, 2023</b>	<b>\$ 2,010,980</b>	<b>\$ 125,528,586</b>	<b>\$ 258,437</b>	<b>\$ 127,798,003</b>
Balance at December 31, 2023	\$ 2,004,125	\$ 124,922,120	\$ 218,689	\$ 127,144,934
Comprehensive income	-	2,848,261	(2,592)	2,845,669
Capital stock/participation certificates and allocated retained earnings issued	54,580	-	-	54,580
Capital stock/participation certificates and allocated retained earnings retired	(55,635)	-	-	(55,635)
Patronage refunds:				
Cash	-	-	-	-
<b>Balance at March 31, 2024</b>	<b>\$ 2,003,070</b>	<b>\$ 127,770,381</b>	<b>\$ 216,097</b>	<b>\$ 129,989,548</b>

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

**CENTRAL TEXAS FARM CREDIT, ACA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:**

The Central Texas Farm Credit, ACA (Agricultural Credit Association), referred to as 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. The Association serves the counties of Baylor, Brown, Callahan, Coke, Coleman, Comanche, Concho, Haskell, Irion, Jones, Knox, McCulloch, Menard, Mills, Reagans, Runnels, San Saba, Sterling, Stonewall, and Tom Green in the state of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2023, as contained in the 2023 Annual Report to Stockholders.

In the opinion of management, the accompanying unaudited consolidated financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods and conform with GAAP, except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2023, as contained in the 2023 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2024. Descriptions of the significant accounting policies are included in the 2023 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

**Recently Adopted Accounting Pronouncements**

In December 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-09 - Income Taxes: Improvements to Income Tax Disclosures. The amendments in this standard require more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. The Association is currently assessing the potential impact of this standard on its disclosures.

In November 2023, the FASB issued ASU 2023-07 - Segment Reporting: Improvements to Reportable Segment Disclosures. The standard requires a public entity to disclose, on an annual and interim basis, the following:

- significant segment expenses that are readily provided to the chief operating decision maker and included in segment profit or loss,
- composition and aggregate amount of other segment items, which represent the difference between profit or loss and segment revenues less significant segment expenses,
- the title and position of the CODM, and
- an explanation of how the CODM uses the reported segment measures in assessing segment performance and deciding how to allocate resources.

Even if a public entity has a single reportable segment, it is required to provide all disclosures set forth in the standard and all existing segment disclosures. The amendments in the standard are to be applied retrospectively to all prior periods presented and are effective for fiscal years beginning after December 31, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Association is currently assessing the potential impact of this standard on its disclosures.

The Association adopted the Financial Accounting Standards Board (FASB) guidance entitled “Measurement of Credit Losses on Financial Instruments” and other subsequently issued accounting standards updates related to credit losses on January 1, 2023. This guidance replaced the current incurred loss impairment methodology with a single allowance framework for financial assets carried at amortized cost and certain off-balance sheet credit exposures. This guidance requires management to consider in its estimate of the allowance for credit losses (ACL) relevant historical events, current conditions and reasonable and supportable forecasts that affect the collectability of the assets. In addition, the guidance amends existing impairment guidance for held-to-maturity and available-for-

sale investments to incorporate an allowance for credit losses related to these securities, which will allow for the reversal of credit impairments in the event that the credit of an issuer improves.

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

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

	December 31, 2022	CECL adoption impact	January 1, 2023
<b>Assets:</b>			
Allowance for credit losses on loans	\$ 1,426,947	\$ (138,248)	\$ 1,288,699
Deferred tax assets	651,408	-	651,408
<b>Liabilities:</b>			
Allowance for credit losses on unfunded commitments	\$ 225,323	\$ (115,145)	\$ 110,178
Deferred tax liabilities	(651,408)	-	(651,408)
<b>Retained earnings:</b>			
Unallocated retained earnings, net of tax	\$ 122,114,885	\$ 253,393	\$ 122,368,278

### Loans and Allowance for Credit Losses

Loans are generally carried at their principal amount outstanding adjusted for charge-offs, deferred loan fees or costs, and valuation adjustments relating to hedging activities. Loan origination fees and direct loan origination costs are netted and capitalized and the net fee or cost is amortized over the average life of the related loan as an adjustment to interest income. Loan prepayment fees are reported in interest income. Interest on loans is accrued and credited to interest income based on the daily principal amount outstanding.

### Nonaccrual Loans

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

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

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

### Accrued Interest Receivable

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

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

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

## **Collateral Dependent Loans**

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

## **Allowance for Credit Losses**

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

- the allowance for credit losses on loans (ACLL);
- the allowance for unfunded commitments, which is presented on the balance sheet in other liabilities; and
- the allowance for credit losses on investment securities, which covers held-to-maturity and available-for-sale securities and is recognized within each investment securities classification on the Consolidated Balance Sheet.

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

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

The ACLL represents management's estimate of credit losses over the remaining expected life of loans. Loans are evaluated on the amortized cost basis, including premiums, discounts and fair value hedge accounting adjustments.

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

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

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

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

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

The Association uses multiple scenarios over a reasonable and supportable forecast period of two years. Subsequent to the forecast period, the Association reverts to long run historical loss experience beyond the two years on a straight-line basis over a one-year reversion period to inform the estimate of losses for the remaining contractual life of the loan portfolio.

The economic forecasts incorporate macroeconomic variables, including unemployment rates, real gross domestic product levels and corporate bond spreads, as well as net farm income and agricultural commodity prices. Also considered are loan and borrower characteristics, such as internal risk ratings, delinquency status, collateral type, and the remaining term of the loan, adjusted for expected prepayments.

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

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

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

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

## NOTE 2 — LOANS AND ALLOWANCE FOR CREDIT LOSSES ON LOANS:

A summary of loans follows:

Loan Type	March 31, 2024	December 31, 2023
Production agriculture:		
Real estate mortgage	\$ 472,451,679	\$ 475,677,600
Production and intermediate-term	106,976,998	104,042,629
Agribusiness:		
Processing and marketing	52,936,004	54,881,444
Farm-related business	23,612,416	22,086,234
Loans to cooperatives	5,856,836	5,127,668
Communication	12,933,429	13,511,137
Water and waste-water	7,090,570	7,123,999
Energy	6,086,937	6,221,452
International loans	4,832,226	4,631,066
Rural residential real estate	623,186	631,590
<b>Total</b>	<b>\$ 693,400,281</b>	<b>\$ 693,934,819</b>

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at March 31, 2024:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Agribusiness	\$ 64,748,722	\$ 3,679,229	\$ -	\$ -	\$ 64,748,722
Real estate mortgage	48,914,465	14,592,548	-	-	48,914,465	14,592,548
Production and intermediate-term	23,767,350	12,958,214	-	-	23,767,350	12,958,214
Communication	12,933,429	-	-	-	12,933,429	-
Water and waste-water	7,090,570	-	-	-	7,090,570	-
Energy	6,086,937	-	-	-	6,086,937	-
International	4,832,226	-	-	-	4,832,226	-
Total	\$ 168,373,699	\$ 31,229,991	\$ -	\$ -	\$ 168,373,699	\$ 31,229,991

The Association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were \$309 at March 31, 2024, and December 31, 2023.

### Credit Quality

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

The Association uses a two-dimensional risk rating model based on an internally generated combined System risk rating guidance that incorporates a 14-point probability of default rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default. Probability of default is the probability that a borrower will experience a default during the life of the loan. The loss given default is management’s estimate as to the anticipated principal loss on a specific loan assuming default occurs during the remaining life of the loan. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower or the loan is classified nonaccrual. This credit risk rating process incorporates

objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship. The Association reviews, at least on an annual basis or when a credit action is taken, the probability of default category.

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

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

The following table presents credit quality indicators by loan type and the related principal balance as of March 31, 2024:

March 31, 2024	Term Loans Amortized Cost by Origination Year						Revolving Loans Converted to Term Loans		Total
	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Amortized Cost Basis	
<b>Real estate mortgage</b>									
Acceptable	\$ 15,278,488	\$ 63,679,798	\$ 64,700,271	\$ 97,425,371	\$ 73,832,302	\$ 147,067,475	\$ 76,000	\$ 142,087	\$ 462,201,792
OAEM	-	-	-	7,535,409	-	853,233	-	-	8,388,642
Substandard/Doubtful	-	-	-	1,442,924	-	418,321	-	-	1,861,245
	<u>\$ 15,278,488</u>	<u>\$ 63,679,798</u>	<u>\$ 64,700,271</u>	<u>\$ 106,403,704</u>	<u>\$ 73,832,302</u>	<u>\$ 148,339,029</u>	<u>\$ 76,000</u>	<u>\$ 142,087</u>	<u>\$ 472,451,679</u>
Gross charge-offs	-	-	-	-	-	-	-	-	-
<b>Production and intermediate-term</b>									
Acceptable	\$ 4,266,738	\$ 7,661,821	\$ 6,658,173	\$ 10,691,859	\$ 3,067,222	\$ 2,655,929	\$ 65,189,526	\$ -	\$ 100,191,268
OAEM	-	-	1,655,307	70,289	4,104	-	1,679,471	-	3,409,171
Substandard/Doubtful	140,338	315,924	-	-	-	1,413,535	1,506,762	-	3,376,559
	<u>\$ 4,407,076</u>	<u>\$ 7,977,745</u>	<u>\$ 8,313,480</u>	<u>\$ 10,762,148</u>	<u>\$ 3,071,326</u>	<u>\$ 4,069,464</u>	<u>\$ 68,375,759</u>	<u>\$ -</u>	<u>\$ 106,976,998</u>
Gross charge-offs	-	-	-	-	-	-	-	-	-
<b>Agribusiness</b>									
Acceptable	\$ 13,756	\$ 13,054,930	\$ 19,851,204	\$ 20,179,434	\$ 4,503,601	\$ 4,675,158	\$ 18,585,677	\$ -	\$ 80,863,760
OAEM	-	-	1,155,220	-	-	-	386,276	-	1,541,496
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>\$ 13,756</u>	<u>\$ 13,054,930</u>	<u>\$ 21,006,424</u>	<u>\$ 20,179,434</u>	<u>\$ 4,503,601</u>	<u>\$ 4,675,158</u>	<u>\$ 18,971,953</u>	<u>\$ -</u>	<u>\$ 82,405,256</u>
Gross charge-offs	-	-	-	-	-	-	-	-	-
<b>Communications</b>									
Acceptable	\$ -	\$ 6,578,783	\$ -	\$ 3,384,276	\$ 2,407,827	\$ -	\$ 562,543	\$ -	\$ 12,933,429
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ 6,578,783</u>	<u>\$ -</u>	<u>\$ 3,384,276</u>	<u>\$ 2,407,827</u>	<u>\$ -</u>	<u>\$ 562,543</u>	<u>\$ -</u>	<u>\$ 12,933,429</u>
Gross charge-offs	-	-	-	-	-	-	-	-	-
<b>Water and waste-water</b>									
Acceptable	\$ -	\$ 2,402,569	\$ 1,987,512	\$ 2,491,068	\$ -	\$ -	\$ 209,421	\$ -	\$ 7,090,570
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ 2,402,569</u>	<u>\$ 1,987,512</u>	<u>\$ 2,491,068</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 209,421</u>	<u>\$ -</u>	<u>\$ 7,090,570</u>
Gross charge-offs	-	-	-	-	-	-	-	-	-
<b>Energy</b>									
Acceptable	\$ -	\$ 1,997,711	\$ -	\$ 1,303,780	\$ -	\$ 2,510,164	\$ -	\$ -	\$ 5,811,655
OAEM	-	-	-	-	-	275,282	-	-	275,282
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ 1,997,711</u>	<u>\$ -</u>	<u>\$ 1,303,780</u>	<u>\$ -</u>	<u>\$ 2,785,446</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,086,937</u>
Gross charge-offs	-	-	-	-	-	-	-	-	-
<b>International</b>									
Acceptable	\$ -	\$ 4,631,236	\$ -	\$ -	\$ -	\$ -	\$ 200,990	\$ -	\$ 4,832,226
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ 4,631,236</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 200,990</u>	<u>\$ -</u>	<u>\$ 4,832,226</u>
Gross charge-offs	-	-	-	-	-	-	-	-	-
<b>Rural residential real estate</b>									
Acceptable	\$ -	\$ -	\$ 141,799	\$ -	\$ 121,065	\$ 360,322	\$ -	\$ -	\$ 623,186
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 141,799</u>	<u>\$ -</u>	<u>\$ 121,065</u>	<u>\$ 360,322</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 623,186</u>
Gross charge-offs	-	-	-	-	-	-	-	-	-
<b>Total Loans</b>									
Acceptable	\$ 19,558,982	\$ 100,006,848	\$ 93,338,959	\$ 135,475,788	\$ 83,932,017	\$ 157,269,048	\$ 84,824,157	\$ 142,087	\$ 674,547,886
OAEM	-	-	2,810,527	7,605,698	4,104	1,128,515	2,065,747	-	13,614,591
Substandard/Doubtful	140,338	315,924	-	1,442,924	-	1,831,856	1,506,762	-	5,237,804
	<u>\$ 19,699,320</u>	<u>\$ 100,322,772</u>	<u>\$ 96,149,486</u>	<u>\$ 144,524,410</u>	<u>\$ 83,936,121</u>	<u>\$ 160,229,419</u>	<u>\$ 88,396,666</u>	<u>\$ 142,087</u>	<u>\$ 693,400,281</u>
<b>Total Gross charge-offs</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

	Term Loans Amortized Cost by Origination Year						Revolving Loans	Revolving Loans	Revolving Loans	Revolving Loans	Total
	2023	2022	2021	2020	2019	Prior	Amortized Cost	Converted to Term Loans	Amortized Cost		
December 31, 2023	2023	2022	2021	2020	2019	Prior	Basis	Term Loans	Basis	Total	
Real estate mortgage											
Acceptable	\$ 72,280,991	\$ 67,251,206	\$ 98,873,235	\$ 74,159,165	\$ 42,690,308	\$ 109,608,193	\$ 69,100	\$ -	\$ -	\$ 464,932,198	
OAEM	-	-	7,981,673	-	497,889	386,687	-	-	-	8,866,249	
Substandard/Doubtful	-	-	1,442,736	-	262,328	174,089	-	-	-	1,879,153	
	<u>\$ 72,280,991</u>	<u>\$ 67,251,206</u>	<u>\$ 108,297,644</u>	<u>\$ 74,159,165</u>	<u>\$ 43,450,525</u>	<u>\$ 110,168,969</u>	<u>\$ 69,100</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 475,677,600</u>	
Gross charge-offs for the year ended December 31, 2023	-	-	-	-	-	-	-	-	-	-	
Production and intermediate-term											
Acceptable	\$ 9,720,040	\$ 7,517,220	\$ 11,193,472	\$ 3,644,834	\$ 1,311,551	\$ 1,772,041	\$ 63,761,922	\$ -	\$ -	\$ 98,921,080	
OAEM	-	1,655,098	70,289	4,104	-	-	254,171	-	-	1,983,662	
Substandard/Doubtful	319,888	-	-	-	1,413,535	-	1,404,464	-	-	3,137,887	
	<u>\$ 10,039,928</u>	<u>\$ 9,172,318</u>	<u>\$ 11,263,761</u>	<u>\$ 3,648,938</u>	<u>\$ 2,725,086</u>	<u>\$ 1,772,041</u>	<u>\$ 65,420,557</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 104,042,629</u>	
Gross charge-offs for the year ended December 31, 2023	187,529	-	-	-	-	-	-	-	-	187,529	
Agribusiness											
Acceptable	\$ 12,079,873	\$ 20,080,517	\$ 19,550,278	\$ 4,511,495	\$ 4,584,332	\$ 123,684	\$ 18,779,830	\$ -	\$ -	\$ 79,710,009	
OAEM	-	1,041,376	909,026	-	-	-	434,935	-	-	2,385,337	
Substandard/Doubtful	-	-	-	-	-	-	-	-	-	-	
	<u>\$ 12,079,873</u>	<u>\$ 21,121,893</u>	<u>\$ 20,459,304</u>	<u>\$ 4,511,495</u>	<u>\$ 4,584,332</u>	<u>\$ 123,684</u>	<u>\$ 19,214,765</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,095,346</u>	
Gross charge-offs for the year ended December 31, 2023	-	-	-	-	-	-	-	-	-	-	
Communications											
Acceptable	\$ 6,346,376	\$ -	\$ 3,389,449	\$ 3,397,940	\$ -	\$ -	\$ 377,372	\$ -	\$ -	\$ 13,511,137	
OAEM	-	-	-	-	-	-	-	-	-	-	
Substandard/Doubtful	-	-	-	-	-	-	-	-	-	-	
	<u>\$ 6,346,376</u>	<u>\$ -</u>	<u>\$ 3,389,449</u>	<u>\$ 3,397,940</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 377,372</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,511,137</u>	
Gross charge-offs for the year ended December 31, 2023	-	-	-	-	-	-	-	-	-	-	
Water and waste-water											
Acceptable	\$ 2,408,718	\$ 2,014,587	\$ 2,497,062	\$ -	\$ -	\$ -	\$ 203,632	\$ -	\$ -	\$ 7,123,999	
OAEM	-	-	-	-	-	-	-	-	-	-	
Substandard/Doubtful	-	-	-	-	-	-	-	-	-	-	
	<u>\$ 2,408,718</u>	<u>\$ 2,014,587</u>	<u>\$ 2,497,062</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 203,632</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,123,999</u>	
Gross charge-offs for the year ended December 31, 2023	-	-	-	-	-	-	-	-	-	-	
Energy											
Acceptable	\$ 1,997,561	\$ -	\$ 1,326,053	\$ -	\$ -	\$ 2,602,087	\$ -	\$ -	\$ -	\$ 5,925,701	
OAEM	-	-	-	-	-	-	-	-	-	-	
Substandard/Doubtful	-	-	-	-	-	295,751	-	-	-	295,751	
	<u>\$ 1,997,561</u>	<u>\$ -</u>	<u>\$ 1,326,053</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,897,838</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,221,452</u>	
Gross charge-offs for the year ended December 31, 2023	-	-	-	-	-	-	-	-	-	-	
International											
Acceptable	\$ 4,631,066	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,631,066	
OAEM	-	-	-	-	-	-	-	-	-	-	
Substandard/Doubtful	-	-	-	-	-	-	-	-	-	-	
	<u>\$ 4,631,066</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,631,066</u>	
Gross charge-offs for the year ended December 31, 2023	-	-	-	-	-	-	-	-	-	-	
Rural residential real estate											
Acceptable	\$ -	\$ 142,853	\$ -	\$ 122,966	\$ -	\$ 365,771	\$ -	\$ -	\$ -	\$ 631,590	
OAEM	-	-	-	-	-	-	-	-	-	-	
Substandard/Doubtful	-	-	-	-	-	-	-	-	-	-	
	<u>\$ -</u>	<u>\$ 142,853</u>	<u>\$ -</u>	<u>\$ 122,966</u>	<u>\$ -</u>	<u>\$ 365,771</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 631,590</u>	
Gross charge-offs for the year ended December 31, 2023	-	-	-	-	-	-	-	-	-	-	
Total Loans											
Acceptable	\$ 109,464,625	\$ 97,006,383	\$ 136,829,549	\$ 85,836,400	\$ 48,586,191	\$ 114,471,776	\$ 83,191,856	\$ -	\$ -	\$ 675,386,780	
OAEM	-	2,696,474	8,960,988	4,104	497,889	386,687	689,106	-	-	13,235,248	
Substandard/Doubtful	319,888	-	1,442,736	-	1,675,863	469,840	1,404,464	-	-	5,312,791	
	<u>\$ 109,784,513</u>	<u>\$ 99,702,857</u>	<u>\$ 147,233,273</u>	<u>\$ 85,840,504</u>	<u>\$ 50,759,943</u>	<u>\$ 115,328,303</u>	<u>\$ 85,285,426</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 693,934,819</u>	
Total Gross charge-offs for the year ended December 31, 2023	\$ 187,529	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 187,529	

The following table shows loans under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans by loan type as of March 31, 2024 and December 31, 2023:

	<b>March 31, 2024</b>	December 31, 2023
Real estate mortgage		
Acceptable	<b>97.8</b> %	97.7 %
OAEM	<b>1.8</b>	1.9
Substandard/doubtful	<b>0.4</b>	0.4
	<b>100.0</b>	100.0
Production and intermediate-term		
Acceptable	<b>93.7</b>	95.1
OAEM	<b>3.2</b>	1.9
Substandard/doubtful	<b>3.1</b>	3.0
	<b>100.0</b>	100.0
Agribusiness		
Acceptable	<b>98.1</b>	97.1
OAEM	<b>1.9</b>	2.9
Substandard/doubtful	<b>-</b>	-
	<b>100.0</b>	100.0
Communication		
Acceptable	<b>100.0</b>	100.0
OAEM	<b>-</b>	-
Substandard/doubtful	<b>-</b>	-
	<b>100.0</b>	100.0
Water and waste-water		
Acceptable	<b>100.0</b>	100.0
OAEM	<b>-</b>	-
Substandard/doubtful	<b>-</b>	-
	<b>100.0</b>	100.0
Energy		
Acceptable	<b>95.5</b>	95.2
OAEM	<b>-</b>	-
Substandard/doubtful	<b>4.5</b>	4.8
	<b>100.0</b>	100.0
International		
Acceptable	<b>100.0</b>	100.0
OAEM	<b>-</b>	-
Substandard/doubtful	<b>-</b>	-
	<b>100.0</b>	100.0
Rural residential real estate		
Acceptable	<b>100.0</b>	100.0
OAEM	<b>-</b>	-
Substandard/doubtful	<b>-</b>	-
	<b>100.0</b>	100.0
Total loans		
Acceptable	<b>97.3</b>	97.3
OAEM	<b>1.9</b>	1.9
Substandard/doubtful	<b>0.8</b>	0.8
	<b>100.0</b> %	100.0 %

Accrued interest receivable on loans of \$8,597,736 and \$8,774,133 at March 31, 2024 and December 31, 2023 have been excluded from the amortized cost of loans and reported separately in the Consolidated Balance Sheet.

The following table reflects nonperforming assets, which consist of nonaccrual loans, accruing loans 90 days or more past due and other property owned and related credit quality statistics:

	March 31, 2024	December 31, 2023
Nonaccrual loans:		
Production and intermediate-term	\$ 1,772,590	\$ 1,636,229
Energy	275,282	295,752
Real estate mortgage	169,054	174,089
Total nonaccrual loans	<u>\$ 2,216,926</u>	<u>\$ 2,106,070</u>
Accruing loans 90 days or more past due:		
Other property owned	-	-
Total nonperforming assets	<u>\$ 2,216,926</u>	<u>\$ 2,106,070</u>
Nonaccrual loans as a percentage of total loans	0.32%	0.30%
Nonperforming assets as a percentage of total loans and other property owned	0.32%	0.30%
Nonperforming assets as a percentage of capital	1.71%	1.66%

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

	March 31, 2024			Interest Income Recognized For the Three Months Ended March 31, 2024
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	
<b>Nonaccrual loans:</b>				
<b>Production and intermediate-term</b>	\$ 1,632,252	\$ 140,338	\$ 1,772,590	\$ 1,385
<b>Energy</b>	275,282	-	275,282	-
<b>Real estate mortgage</b>	-	169,054	169,054	-
<b>Total nonaccrual loans</b>	<u>\$ 1,907,534</u>	<u>\$ 309,392</u>	<u>\$ 2,216,926</u>	<u>\$ 1,385</u>
	December 31, 2023			Interest Income Recognized For the Three Months Ended March 31, 2023
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	
Nonaccrual loans:				
Production and intermediate-term	\$ 1,636,229	\$ -	\$ 1,636,229	\$ 35,996
Energy	295,752	-	295,752	-
Real estate mortgage	-	174,089	174,089	3,583
Total nonaccrual loans	<u>\$ 1,931,981</u>	<u>\$ 174,089</u>	<u>\$ 2,106,070</u>	<u>\$ 39,579</u>

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

	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
<b>March 31, 2024</b>						
Real estate mortgage	\$ 2,413,905	\$ -	\$ 2,413,905	\$ 470,037,774	\$ 472,451,679	\$ -
Production and intermediate term	25,048	1,632,190	1,657,238	105,319,760	106,976,998	-
Processing and marketing	-	-	-	52,936,004	52,936,004	-
Farm-related business	-	-	-	23,612,416	23,612,416	-
Loans to cooperatives	-	-	-	5,856,836	5,856,836	-
Communication	-	-	-	12,933,429	12,933,429	-
Water and waste-water	-	-	-	7,090,570	7,090,570	-
Energy	-	-	-	6,086,937	6,086,937	-
International	-	-	-	4,832,226	4,832,226	-
Rural residential real estate	-	-	-	623,186	623,186	-
<b>Total</b>	<u>\$ 2,438,953</u>	<u>\$ 1,632,190</u>	<u>\$ 4,071,143</u>	<u>\$ 689,329,138</u>	<u>\$ 693,400,281</u>	<u>\$ -</u>

December 31, 2023	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	\$ 1,339,997	\$ -	\$ 1,339,997	\$ 474,337,603	\$ 475,677,600	\$ -
Production and intermediate term	1,418,535	222,632	1,641,167	102,401,462	104,042,629	-
Processing and marketing	-	-	-	54,881,444	54,881,444	-
Farm-related business	-	-	-	22,086,234	22,086,234	-
Loans to cooperatives	-	-	-	5,127,668	5,127,668	-
Communication	-	-	-	13,511,137	13,511,137	-
Water and waste-water	-	-	-	7,123,999	7,123,999	-
Energy	-	-	-	6,221,452	6,221,452	-
International	-	-	-	4,631,066	4,631,066	-
Rural residential real estate	-	-	-	631,590	631,590	-
Total	\$ 2,758,532	\$ 222,632	\$ 2,981,164	\$ 690,953,655	\$ 693,934,819	\$ -

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

### Allowance for Credit Losses

The credit risk rating methodology is a key component of the Association's allowance for credit losses evaluation, and is generally incorporated into the Association's loan underwriting standards and internal lending limits. In addition, borrower and commodity concentration lending and leasing limits have been established by the Association to manage credit exposure. The regulatory limit to a single borrower or lessee is 15 percent of the Association's lending and leasing limit base, but the Association's boards of directors have generally established more restrictive lending limits. This limit applies to associations with long-term and short- and intermediate-term lending authorities, and to the banks' (other than CoBank) loan participations.

A summary of changes in the allowance for credit losses by portfolio segment are as follows:

	Real Estate Mortgage	Production and Intermediate- Term	Agribusiness	Communications	Water and Waste Water	Energy	International	Rural Residential Real Estate	Total
<b>Allowance for credit losses on loans:</b>									
Balance at December 31, 2023	\$ 659,680	\$ 667,329	\$ 266,034	\$ 19,093	\$ 6,445	\$ 155,732	\$ 2,328	\$ -	\$ 1,776,641
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-
Provision for credit losses/(Credit loss reversal)	64,613	150,983	(41,590)	(420)	(74)	(450)	(149)	-	172,913
Balance at March 31, 2024	\$ 724,293	\$ 818,312	\$ 224,444	\$ 18,673	\$ 6,371	\$ 155,282	\$ 2,179	\$ -	\$ 1,949,554
<b>Allowance for credit losses on unfunded commitments:</b>									
Balance at December 31, 2023	\$ 225	\$ 21,586	\$ 64,217	\$ 2,016	\$ 525	\$ -	\$ 1,587	\$ -	\$ 90,156
Provision for unfunded commitments	(80)	1,263	(13,421)	(436)	(80)	-	(117)	-	(12,871)
Balance at March 31, 2024	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total allowance for credit losses</b>	\$ 724,293	\$ 818,312	\$ 224,444	\$ 18,673	\$ 6,371	\$ 155,282	\$ 2,179	\$ -	\$ 1,949,554

	Real Estate Mortgage	Production and Intermediate- Term	Agribusiness	Communications	Water and Waste Water	Energy	International	Rural Residential Real Estate	Total
<b>Allowance for credit losses on loans:</b>									
Balance at December 31, 2022	\$ 305,431	\$ 270,913	\$ 577,823	\$ 32,844	\$ 10,615	\$ 224,567	\$ 4,521	\$ 233	\$ 1,426,947
Cumulative effect if a change in accounting principle	163,091	(93,160)	(176,994)	(21,546)	(5,914)	(1,116)	(2,506)	(103)	(138,248)
Balance at January 1, 2023	\$ 468,522	\$ 177,753	\$ 400,829	\$ 11,298	\$ 4,701	\$ 223,451	\$ 2,015	\$ 130	\$ 1,288,699
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-
Provision for loan losses (Credit loss reversal)	(1,427)	(18,346)	(32,951)	(908)	(480)	647	793	(11)	(52,683)
Balance at March 31, 2023	\$ 467,095	\$ 159,407	\$ 367,878	\$ 10,390	\$ 4,221	\$ 224,098	\$ 2,808	\$ 119	\$ 1,236,016
<b>Allowance for credit losses on unfunded commitments:</b>									
Balance at December 31, 2022	\$ 137	\$ 94,010	\$ 124,215	\$ 1,922	\$ 694	\$ 2	\$ 4,343	\$ -	\$ 225,323
Cumulative effect if a change in accounting principle	(99)	(70,808)	(40,275)	(1,156)	(389)	(1)	(2,417)	-	(115,145)
Balance at January 1, 2023	\$ 38	\$ 23,202	\$ 83,940	\$ 766	\$ 305	\$ 1	\$ 1,926	\$ -	\$ 110,178
Provision for unfunded commitments	(14)	(8,507)	(34,322)	(151)	(19)	-	(846)	-	(43,859)
Balance at March 31, 2023	\$ 24	\$ 14,695	\$ 49,618	\$ 615	\$ 286	\$ 1	\$ 1,080	\$ -	\$ 66,319
<b>Total allowance for credit losses</b>	\$ 467,119	\$ 174,102	\$ 417,496	\$ 11,005	\$ 4,507	\$ 224,099	\$ 3,888	\$ 119	\$ 1,302,335

### Discussion of Changes in Allowance for Credit Losses

The allowance for credit losses (ACL) increased \$172,913 to \$1,949,554 at March 31, 2024, as compared to \$1,776,641 at December 31, 2023. This is largely due to increase in specific allowance on an impaired loan and growth in loan volume.

### NOTE 3 —LEASES:

The components of lease expense were as follows:

<u>Classification</u>	For the Three Months Ended	
	March 31, 2024	March 31, 2023
Operating lease cost	\$ 4,228	\$ 4,228
Net lease cost	\$ 4,228	\$ 4,228

Other information related to leases was as follows:

	For the Three Months Ended	
	March 31, 2024	March 31, 2023
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 5,880	\$ 5,670

Lease term and discount rate are as follows:

	March 31, 2024	December 31, 2023
	Weighted average remaining lease term in years	
Operating leases	0.08	0.33
Weighted average discount rate		
Operating leases	4.17%	4.13%

Future minimum lease payments under non-cancellable leases as of March 31, 2024, were as follows:

	Total
2024	\$ 1,960
2025	-
2026	-
2027	-
2028	-
Thereafter	-
Total	\$ 1,960

The current lease expires on April 30, 2024. The Association is considering its options.

### NOTE 4 — CAPITAL:

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

	March 31, 2024	December 31, 2023
Capital stock and participation certificates	\$ 2,003,070	\$ 2,004,125
Accumulated other comprehensive income	216,097	218,689
Retained earnings <sup>1</sup>	127,770,381	124,922,120
Total Capital	\$ 129,989,548	\$ 127,144,934

<sup>1</sup> Retained earnings for the quarter ended March 31, 2024, reflects an increase from the cumulative effect of a change in accounting principle for CECL on January 1, 2023.

## Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Minimums with Buffer	As of March 31, 2024
Common equity tier 1 ratio	7.00%	15.96%
Tier 1 capital ratio	8.50%	15.96%
Total capital ratio	10.50%	16.22%
Permanent capital ratio	7.00%	16.00%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.00%	16.52%
UREE leverage ratio	1.50%	16.23%

The details for the amounts used in the calculation of the regulatory capital ratios as of March 31, 2024:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	\$ 126,141,088	\$ 126,141,088	\$ 126,141,088	\$ 126,141,088
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	1,998,066	1,998,066	1,998,066	1,998,066
Allowance for credit losses and reserve for credit losses subject to certain limitations	-	-	1,873,795	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(11,353,659)	(11,353,659)	(11,353,659)	(11,353,659)
	\$ 116,785,495	\$ 116,785,495	\$ 118,659,290	\$ 116,785,495
Denominator:				
Risk-adjusted assets excluding allowance	\$ 742,985,242	\$ 742,985,242	\$ 742,985,242	\$ 742,985,242
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(11,353,659)	(11,353,659)	(11,353,659)	(11,353,659)
Allowance for loan losses	-	-	-	(1,784,069)
	\$ 731,631,583	\$ 731,631,583	\$ 731,631,583	\$ 729,847,514

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	\$ 126,141,088	\$ 126,141,088
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	1,998,066	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(11,353,659)	(11,353,659)
	\$ 116,785,495	\$ 114,787,429
Denominator:		
Total Assets	\$ 720,026,180	\$ 720,026,180
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(12,896,109)	(12,896,109)
	\$ 707,130,071	\$ 707,130,071

The following tables present the activity in the accumulated other comprehensive loss, net of tax by component:

	<b>Accumulated Other Comprehensive Income (Loss)</b>
Balance at December 31, 2023	\$ 218,689
Other comprehensive income before reclassifications	(2,592)
Amounts reclassified from accumulated other comprehensive loss	-
Net current period other comprehensive income	(2,592)
Balance at March 31, 2024	\$ 216,097

	<u>Accumulated Other Comprehensive Income (Loss)</u>	
Balance at December 31, 2022	\$	266,492
Other comprehensive income before reclassifications		(8,055)
Amounts reclassified from accumulated other comprehensive loss		-
Net current period other comprehensive income		<u>(8,055)</u>
Balance at March 31, 2023	\$	<u>258,437</u>

The Association's accumulated other comprehensive income relates entirely to its non-pension other postretirement benefits. Amortization of prior credits cost and of actuarial loss are reflected in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income for the three months ended March 31:

	<u>2024</u>	<u>2023</u>
Accumulated other comprehensive income at January 1	\$ 218,689	\$ 266,492
Actuarial losses	(1,364)	(2,935)
Amortization of prior credit costs included in salaries and employee benefits	(1,228)	(5,120)
Other comprehensive loss, net of tax	(2,592)	(8,055)
Accumulated other comprehensive income at March 31	\$ 216,097	\$ 258,437

#### NOTE 5 — INCOME TAXES:

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

#### NOTE 6 — 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 the principal or most advantageous market for the asset or liability. See Note 13 in the 2023 Annual Report to Stockholders for a more complete description.

Assets measured at fair value on a nonrecurring basis, which are fair value measurements that are triggered by particular circumstances such as impaired assets, for each of the fair value hierarchy values are summarized below. The Association did not have any liabilities measured at fair value on a nonrecurring basis.

March 31, 2024	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
<b>Assets:</b>				
Loans*	\$ -	\$ -	\$ 1,175,606	\$ 1,175,606
December 31, 2023	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
<b>Assets:</b>				
Loans*	\$ -	\$ -	\$ 1,338,704	\$ 1,338,704

\*Represents the fair value of certain loans that were evaluated for impairment under the authoritative guidance "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

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

### Valuation Techniques

As more fully discussed in Note 13 to the 2023 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an association to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see the 2023 Annual Report to Stockholders.

#### *Loans Evaluated for Impairment*

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

#### *Other Property Owned*

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

#### *Cash*

For cash, the carrying amount is a reasonable estimate of fair value.

#### *Loans*

Fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the Association's current loan origination rates as well as management's estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

For purposes of estimating fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

### NOTE 7 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three months ended March 31:

	Other Benefits	
	2024	2023
Service cost	\$ 4,422	\$ 5,274
Interest cost	25,035	23,004
Amortization of prior credits costs	(1,228)	(5,120)
Amortization of net actuarial gain	(1,364)	(2,935)
Net periodic benefit cost	\$ 26,865	\$ 20,223

The Association's liability for the unfunded accumulated obligation for these benefits at March 31, 2024, was \$1,872,041 and is included in other liabilities on the balance sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "other components of net periodic postretirement benefit cost" in the income statement.

The structure of the District's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The Association previously disclosed in its financial statements for the year ended December 31, 2023, that it expected to contribute \$80,730 to the District's defined benefit pension plan in 2024. As of March 31, 2024, \$26,865 of contributions have been made. The Association presently anticipates contributing an additional \$80,599 to fund the defined benefit pension plan in 2024 for a total of \$107,464.

**NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:**

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

**NOTE 9 — SUBSEQUENT EVENTS:**

The Association has evaluated subsequent events through May 10, 2024, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of May 10, 2024.