



2021 ANNUAL REPORT

December 31, 2021

THANK YOU FOR A **REMARKABLE YEAR**

PENNINGTON FARMS, INC.

Raymondville, Texas



Spence and Emily
Pennington and children

As a full-time farmer, Air Force veteran and part-time Air Force Reservist, Spence Pennington has found community among Farmer Veteran Coalition members and support from Texas Farm Credit.

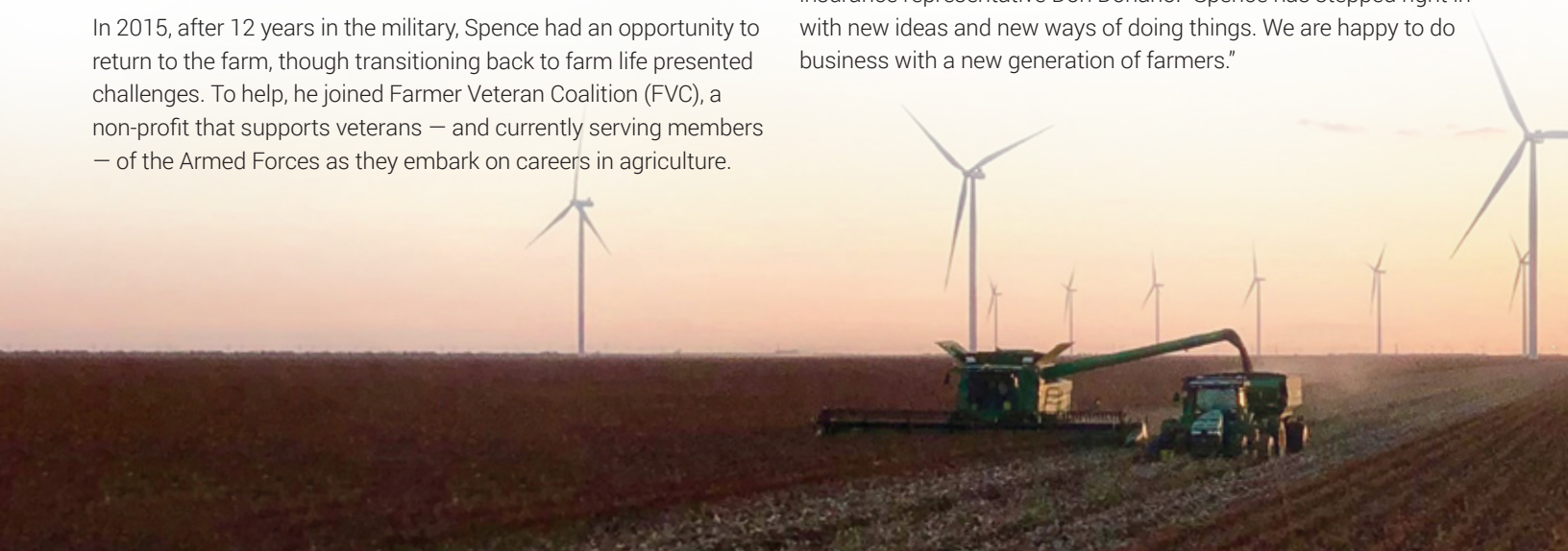
"Without a doubt, being in the military has made me a better farmer," he said. "It's made me more calculated, given me the ability to plan and made me a better leader of people." Spence — with his parents, brother, sister and wife, Emily — farms 16,000 acres of cotton, grain sorghum, corn, sugarcane, sesame seed and other specialty crops, in addition to a herd of Brangus cattle.

In 2015, after 12 years in the military, Spence had an opportunity to return to the farm, though transitioning back to farm life presented challenges. To help, he joined Farmer Veteran Coalition (FVC), a non-profit that supports veterans — and currently serving members — of the Armed Forces as they embark on careers in agriculture.

Spence also found crucial support from Farm Credit. When their local crop insurance agent decided to sell his business and join Texas Farm Credit, Spence and his family chose to stick with his agent and became Farm Credit customers.

"We like dealing with Farm Credit because they don't seem like a really big company that's sprawling all over parts of Texas. They seem like a hometown crowd," he said. "After traveling the world and living abroad, you really come to appreciate that."

"I have insured the Pennington family for over 40 years," says insurance representative Don Donaho. "Spence has stepped right in with new ideas and new ways of doing things. We are happy to do business with a new generation of farmers."



Whether we're helping customers build a lasting operation, supporting communities through charitable giving, or investing in technologies to meet our borrowers' needs, here's the Texas Farm Credit difference in action in 2021.

J&K WHATLEY FARMS

Odem, Texas



Kelly and Jon Whatley

Jon Whatley won't forget Easter Sunday, 2005. While his family attended church, he drove a tractor in a last-ditch effort to save crops from a sandstorm.

"My father and I ran sand-fighter plows all day," Jon recalls, referring to an implement that roughens up the soil so it doesn't blow away. "But we were only able to save two-thirds of our crops. I remember thinking 'There's got to be a smarter way to stop the sand from sawing off our seedlings.' That's when I realized I needed to partner with Mother Nature — not work against her."

Jon knew traditional dryland farming practices wouldn't work anymore. Instead, conservation-focused methods were the way to go, such as conservation strip-till: tilling only the strips of soil where seed will be planted. Between strips, they leave the ground in its natural state to allow organic matter to build. They've adopted other sustainable soil and water conservation measures, too.

For their efforts, J&K Whatley Farms earned the 2020 Conservation Farmer title from the Texas State Soil and Water Conservation Board and the Association of Texas Soil and Water Conservation.

"The Whatleys have a passion for farming and strive to be good stewards of the land," says Texas Farm Credit Branch Manager Jason Floyd. "They stay educated and surround themselves with knowledgeable people."

KNOLLE DAIRY FARMS

Sandia, Texas



Christina and Joe Knolle Jr.

Joe Knolle Jr. didn't intend to launch a new business in the middle of a pandemic. For four years, he and his wife, Christina, had been hatching a plan to add value to their South Texas Jersey dairy operation, once the largest Jersey operation in the world. Their goal? To make and sell fresh Mexican-style cheese.

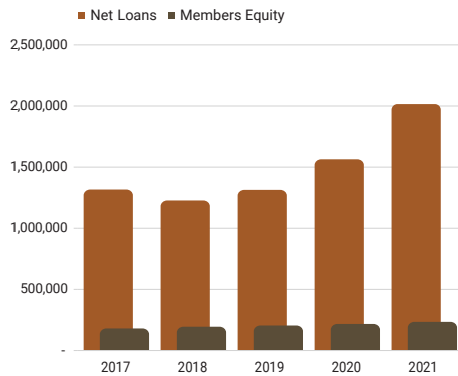
But in January 2020 they had to cut production because of industry milk surpluses. Then COVID-19 hit, and their milk market dried up even more. There was only one thing to do — fast-track their business plan and start making cheese, a move supported by their lender, Texas Farm Credit.

Knolle Dairy Farms now produces nine flavors of fresh cheese plus curds from one of the few dairy farms in South Texas. Big or small, the Knolles look forward to celebrating the dairy's 100th anniversary in 2028. Texas Farm Credit is eager to help them reach that goal and continue the business for years to come.

FINANCIAL HIGHLIGHTS

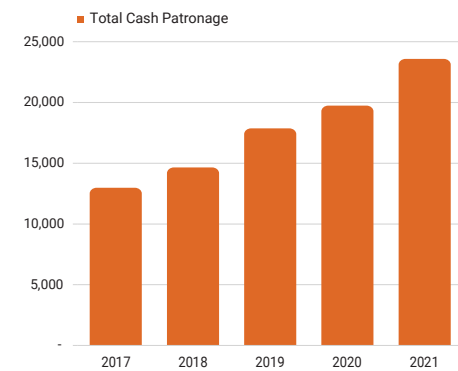
End-of-Year Net Loans and Members' Equity

(dollars in thousands)



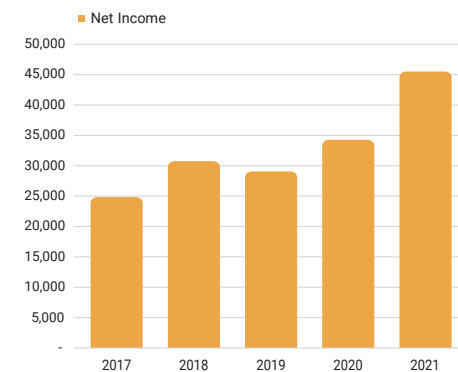
Cash Patronage Payments

(dollars in thousands)



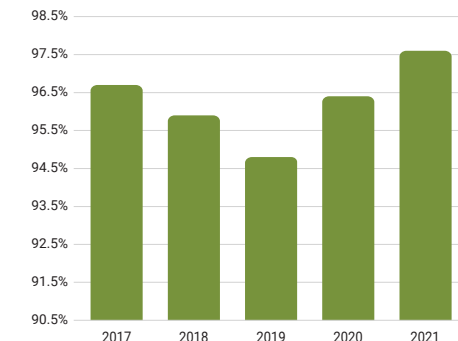
Net Income

(dollars in thousands)



End-of-Year Credit Quality

Acceptable Credit Quality



Dear Stockholders:

While 2021 was filled with many global challenges, Texas Farm Credit and its members were blessed to achieve a number of major milestones and accomplishments. We're thankful to have been your trusted partner through it all, providing the financial resources you needed to get crops out of the ground, deliver livestock to market, help your ag business thrive, and fulfill dreams of land and home ownership. We've worked diligently over the past few years to better position ourselves to serve you, and this year we saw much of that effort ripen into remarkable results.

A few financial highlights:

In 2021, we reported record **net income**, surpassing 2020 earnings by 33%, our previous best year.

33%

We grew our **assets** by an astonishing 29% over 2020 and 51% over 2019 levels.

51%

Our **mortgage** division and **insurance** team increased **revenues** by 50% over 2020, which covered an astounding 32% of our operating costs.

50%

We accrued a record **cash patronage** on 2021 earnings, which is an increase of 43% over the previous year's levels, our best year to that point.

43%

Credit quality remained strong, with 98% of loans classified as acceptable or special mention.

98%

When Texas Farm Credit does well financially, our members benefit. Strong performance allows us to return more patronage in the form of cashback dividends. We're pleased that 2021 was the 24th consecutive year that we returned cash to customers and the 11th consecutive year we returned allocated surplus.

Coupled with our financial achievements is the success of our community outreach efforts. Through volunteer time and monetary contributions, we're striving to help make our slice of Texas the best it can be. For instance, we've revamped our awards-and-recognition program for 4-H and FFA students, increasing our support to over \$100,000 a year. The spirit of reinvesting in the communities we serve is deeply embedded in our culture — one of the strengths of the cooperative business model — and we're proud to support our neighbors in this way.

My personal thanks go to our outstanding Texas Farm Credit team members from northeast Texas to the Rio Grande Valley. They're not only experts in every phase of rural financing, but they've adapted rapidly to new technology systems and processes that have allowed us to grow swiftly and efficiently.

And a special thanks to you, our customers and stockholders. You've chosen Texas Farm Credit as your financial partner, and we appreciate and value your confidence in us. We look forward to our continued relationship and a prosperous 2022.

Mark Miller

Mark Miller
Chief Executive Officer

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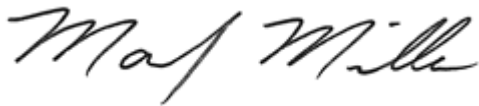
REPORT OF MANAGEMENT

The consolidated financial statements of Texas Farm Credit Services (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.



Mark Miller, Chief Executive Officer
March 11, 2022



John Prukop, Chairman, Board of Directors
March 11, 2022



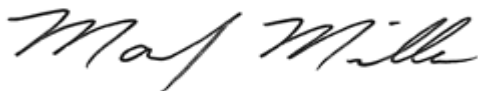
Keith A. Ibrom, Chief Financial Officer
March 11, 2022

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Association's chief executive officer and chief financial officer, or people performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's consolidated financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the Association's principal executives and principal financial officers, or people performing similar functions, and effected by its boards of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its consolidated financial statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2021. In making the assessment, management used the framework in Internal Control—Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2021, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2021. A review of the assessment performed was reported to the Association's audit committee.



Mark Miller, Chief Executive Officer
March 11, 2022



Keith A. Ibrom, Chief Financial Officer
March 11, 2022

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of eight members of the board of directors of Texas Farm Credit Services. In 2021, five committee meetings were held. The committee oversees the scope of Texas Farm Credit Services' 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 Texas Farm Credit Services' website. The committee approved the appointment of PricewaterhouseCoopers LLP for 2021.

Management is responsible for Texas Farm Credit Services' 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. PricewaterhouseCoopers LLP is responsible for performing an independent audit of Texas Farm Credit Services' 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 Texas Farm Credit Services' audited consolidated financial statements for the year ended December 31, 2021 (audited consolidated financial statements) with management and PricewaterhouseCoopers LLP. The committee also reviews with PricewaterhouseCoopers LLP the matters required to be discussed by authoritative guidance "The Auditor's Communication With Those Charged With Governance," and both PricewaterhouseCoopers LLP's and Texas Farm Credit Services' internal auditors directly provide reports on significant matters to the committee.

The committee discussed with PricewaterhouseCoopers LLP its independence from Texas Farm Credit Services. The committee also reviewed the nonaudit services provided by PricewaterhouseCoopers LLP and concluded that these services were not incompatible with maintaining the independent accountant's independence. The committee has discussed with management and PricewaterhouseCoopers LLP 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 Texas Farm Credit Services' Annual Report to Stockholders for the year ended December 31, 2021.

Audit Committee Members

Gregory T. Richbourg, Audit Committee Chairman
Marion Vines Durand, Audit Committee Vice Chairwoman
John Prukop, Audit Committee Member
Jerry Chappell, Audit Committee Member
James Dawley, Audit Committee Member
David Henneke, Audit Committee Member
Mark Reus, Audit Committee Member
Roxann Garvin, Audit Committee Member

March 11, 2022

TEXAS FARM CREDIT SERVICES

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

(unaudited)

(dollars in thousands)

	2021	2020	2019	2018	2017
<u>Balance Sheet Data</u>					
<u>Assets</u>					
Cash	\$ 50	\$ 2,374	\$ 7,188	\$ 5,082	\$ 4,852
Investments	735	1,054	2,661	3,060	3,610
Loans	2,014,919	1,563,260	1,314,083	1,227,197	1,316,909
Less: allowance for loan losses	3,017	6,000	4,324	2,996	3,526
Net loans	2,011,902	1,557,260	1,309,759	1,224,201	1,313,383
Investment in and receivable from the Farm Credit Bank of Texas	32,285	25,480	23,197	23,228	22,570
Other property owned, net	-	-	3,101	-	26
Other assets	36,362	28,476	30,007	26,332	24,693
Total assets	<u>\$ 2,081,334</u>	<u>\$ 1,614,644</u>	<u>\$ 1,375,913</u>	<u>\$ 1,281,903</u>	<u>\$ 1,369,134</u>
<u>Liabilities</u>					
Obligations with maturities of one year or less	\$ 38,244	\$ 29,050	\$ 27,700	\$ 24,058	\$ 29,296
Obligations with maturities greater than one year	1,807,683	1,366,940	1,143,305	1,061,991	1,158,538
Total liabilities	<u>1,845,927</u>	<u>1,395,990</u>	<u>1,171,005</u>	<u>1,086,049</u>	<u>1,187,834</u>
<u>Members' Equity</u>					
Capital stock and participation certificates	4,365	4,175	3,791	4,100	4,013
Additional paid-in capital	47,596	47,596	47,596	47,596	47,596
Allocated retained earnings	54,628	57,255	56,437	54,987	46,040
Unallocated retained earnings	129,134	110,209	97,794	89,370	84,440
Accumulated other comprehensive income (loss)	(316)	(581)	(710)	(199)	(789)
Total members' equity	<u>235,407</u>	<u>218,654</u>	<u>204,908</u>	<u>195,854</u>	<u>181,300</u>
Total liabilities and members' equity	<u>\$ 2,081,334</u>	<u>\$ 1,614,644</u>	<u>\$ 1,375,913</u>	<u>\$ 1,281,903</u>	<u>\$ 1,369,134</u>
<u>Statement of Income Data</u>					
Net interest income	\$ 47,713	\$ 40,368	\$ 36,935	\$ 36,390	\$ 36,658
Reversal of (provision for) loan losses and other property owned	3,435	(1,557)	(2,135)	1,025	(752)
Income from the Farm Credit Bank of Texas	13,973	12,327	11,149	8,463	5,530
Other noninterest income	11,119	8,592	6,928	8,606	5,214
Noninterest expense	(30,100)	(25,310)	(23,797)	(23,296)	(21,300)
Benefit from income taxes	(623)	(140)	-	(432)	(521)
Net income	<u>\$ 45,517</u>	<u>\$ 34,280</u>	<u>\$ 29,080</u>	<u>\$ 30,756</u>	<u>\$ 24,829</u>

TEXAS FARM CREDIT SERVICES

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

(unaudited)

(dollars in thousands)

	2021	2020	2019	2018	2017
<u>Key Financial Ratios at Year End *</u>					
Return on average assets	2.5%	2.3%	2.2%	2.3%	1.9%
Return on average members' equity	18.9%	15.6%	13.9%	15.7%	13.6%
Net interest income as a percentage of average earning assets	2.6%	2.7%	2.9%	2.8%	2.9%
Net charge-offs as a percentage of average loans	0.0%	0.0%	0.0%	0.0%	0.1%
Members' equity as a percentage of total assets	11.3%	13.5%	14.9%	15.3%	13.2%
Debt as a percentage of members' equity	784.1%	638.4%	571.5%	554.5%	655.2%
Allowance for loan losses as a percentage of loans	0.2%	0.4%	0.3%	0.2%	0.3%
Common equity tier 1 ratio	12.6%	13.5%	14.2%	14.8%	13.2%
Tier 1 capital ratio	12.6%	13.5%	14.2%	14.8%	13.2%
Total capital ratio	12.8%	13.9%	14.5%	15.1%	13.5%
Permanent capital ratio	12.6%	13.5%	14.2%	14.9%	13.2%
Tier 1 leverage ratio	11.4%	13.3%	14.0%	14.6%	12.7%
UREE leverage ratio	9.0%	10.1%	10.6%	10.6%	9.2%
<u>Net Income Distribution</u>					
Patronage dividends:					
Cash	\$ 23,701	\$ 19,035	\$ 17,866	\$ 14,655	\$ 12,989
Allocated retained earnings	6,029	6,993	7,750	6,924	6,121

*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, 2021. For more information, see Note 11 in the accompanying consolidated financial statements, "Members' Equity," included in this annual report.

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

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Texas Farm Credit Services, including its wholly owned subsidiaries, Texas Farm Credit Services, PCA and Texas Farm Credit Services, FLCA (Association) for the years ended December 31, 2021, 2020 and 2019, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying financial statements were prepared under the oversight of the Association's audit committee.

Forward-Looking Information:

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

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international and farm-related business sectors;
- weather-related, disease-related and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the 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.

Commodity Review and Outlook:

For years, producers have faced challenges unique to the agricultural market. Unpredictable weather, fluctuating commodity prices and compressed profit margins are just a few of the challenges present in today's agricultural market. As an experienced rural lender, Texas Farm Credit Services understands the cyclical nature of agriculture. Texas Farm Credit Services is committed to its owners. The Association is focused on meeting our owner's production credit requirements, insurance demands and mortgage financing needs. Texas Farm Credit Services remains committed to our mission of supporting rural communities and agriculture with reliable, consistent credit and financial services.

Significant Events:

In 2021, one of the Association's board members rendered his resignation based on personal reasons. The Board of Directors has decided not to fill the vacant position at this time. In 2020, one of the Association's board members rendered his retirement notice based on personal reasons. The board appointed a regional replacement director to serve the remainder of the term for the unplanned retirement. In 2019, one of the Association's board members rendered his retirement notice based on personal reasons. The board appointed a regional replacement director to serve the remainder of the term for the unplanned retirement.

Patronage Refunds Received From FCBT:

In December 2021, the Association received a direct loan patronage of \$10,500,832 from the Bank, representing 67 basis points on the average daily balance of the Association's direct loan with the Bank. The Association received a \$2,887,915 patronage based on its Capitalized and Non-Capitalized Participation Pool agreements with the Bank. During 2021, the Association received \$394,968 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 \$189,159 from the Bank, representing 100 basis points on the Association's average balance of participations in the Bank's patronage pool program.

Patronage Refunds by Association:

In April 2021, Texas Farm Credit Services declared a \$29,758,271 patronage for all members who had outstanding accrual loans with the Association during fiscal year 2020. The Association patronage paid members \$14,846,681 in cash, \$6,991,590 in redeemable allocated surplus eligible for future cash distribution and \$7,920,000 in Association retained allocated surplus. In December 2021, the Association distributed \$8,655,583 in cash patronage from redeemable allocated surplus originally declared in 2014.

For more than 87 years, the Association has continued to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the Association while offering competitive loan products that meet the financial needs of agricultural producers.

COVID Discussion:

The United States has been operating under a presidentially declared emergency since March 13, 2020 due to the Coronavirus Disease 2019 (also referred to as COVID-19). The Association continues during these unprecedented times to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. Loan volume increased as borrowers increased their liquidity and cash positions. The Association was able to maintain access to borrowings, fund incremental needs and increase liquidity without significant changes to its funding strategies or interest rate risk profiles. Through December 31, 2021, and the date of this report, there have been no observable delinquencies or credit metrics impacting the credit quality of the Association's loan portfolio related to COVID-19. The Association is closely monitoring its loan portfolio overall and is particularly focused on sectors that may be pressured by COVID-19 and its related economic impacts, such as oil and gas, food processing, timber and beef cattle. The Association has adjusted its portfolio monitoring and servicing practices and, if appropriate, will evaluate its allowance for loan losses as changes in outlook occur. Capital levels remained strong to support any adversity or continuing loan demand.

During 2020, the Association implemented a payment deferral program to provide relief to Association borrowers affected by COVID-19. Each borrower is evaluated on an individual basis, with payments being deferred for up to 90 days. The Association will continue to monitor the impact of COVID-19 on Association borrowers.

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 30 years, with annual operating loans comprising the majority of the commercial loans and 15- 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 \$2,014,918,904, \$1,563,259,965 and \$1,314,083,263 as of December 31, 2021, 2020 and 2019, respectively, is described more fully in detailed tables in Note 4 to the consolidated financial statements, "Loans and Allowance for Loan Losses," included in this annual report.

At December 31, 2021, the Association held loans totaling \$745,003 extended under the Rural America Bond Program approved by the FCA. The program is designed to meet the growing and changing needs of agricultural enterprises, agribusinesses and rural communities by providing investment in rural areas.

Purchase and Sales of Loans:

During 2021, 2020 and 2019, the Association was participating in loans with other lenders. As of December 31, 2021, 2020 and 2019, these participations totaled \$205,166,277, \$205,247,754 and \$116,615,682, or 10.2 percent, 13.1 percent and 8.9 percent of loans, respectively. Included in these amounts are participations purchased from entities outside the district of \$47,211,161, \$15,835,053 and \$19,136,746, or 2.3 percent, 1.0 percent and 1.5 percent of loans, respectively. The Association has also sold participations of \$108,964,168, \$203,409,590 and \$242,048,435 as of December 31, 2021, 2020 and 2019, 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:

	2021		2020		2019	
	Amount	%	Amount	%	Amount	%
Nonaccrual	\$ 8,317,858	91.7%	\$ 6,643,286	89.4%	\$ 8,349,534	68.1%
90 days past due and still accruing interest	20	0.0%	4,549	0.1%	5	0.0%
Formally restructured	752,742	8.3%	782,380	10.5%	810,911	6.6%
Other property owned, net	-	0.0%	-	0.0%	3,101,394	25.3%
Total	<u>\$ 9,070,620</u>	<u>100.0%</u>	<u>\$ 7,430,215</u>	<u>100.0%</u>	<u>\$ 12,261,844</u>	<u>100.0%</u>

At December 31, 2021, 2020 and 2019, loans that were considered impaired were \$9,070,620, \$7,430,215 and \$9,160,450, representing 0.5 percent, 0.5 percent and 0.7 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

The Association held no properties requiring classification as other property owned as of December 31, 2021.

Except for the relationship between installment due date and seasonal cash-flow capabilities of the borrower, the Association is not affected by any seasonal characteristics. The factors affecting the operations of the Association are the same factors that would affect any agricultural real estate lender. To help mitigate and diversify credit risk, the Association has employed practices including securitization of loans, obtaining credit guarantees and engaging in loan participations.

Allowance for Loan Losses:

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

	2021	2020	2019
Allowance for loan losses	\$ 3,016,536	\$ 5,999,691	\$ 4,323,904
(Reversal of) provision for loan losses	(3,434,679)	1,566,829	1,435,839
Loans charged off	-	(1,583)	(668,890)
Recoveries	419,576	35,434	478,986
Allowance for loan losses to total loans	0.2%	0.4%	0.3%
Allowance for loan losses to nonaccrual loans	36.3%	90.3%	51.8%
Allowance for loan losses to impaired loans	33.3%	80.8%	47.2%
Net charge-offs to average loans	0.0%	0.0%	0.0%

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 \$3,016,536, \$5,999,691 and \$4,323,904 at December 31, 2021, 2020 and 2019, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates. Based on analysis performed by the Association, it concluded the entire balance of nonaccrual loans is well-securitized by either a prioritized security interest in real estate, equipment or livestock with values in excess of the principal loan balances less selling expenses or an agency guarantee.

Results of Operations:

The Association's net income for the year ended December 31, 2021, was \$45,517,351 as compared to \$34,279,506 for the year ended December 31, 2020, reflecting an increase of \$11,237,845, or 32.8 percent. The Association's net income for the year ended December 31, 2019 was \$29,080,299. Net income increased \$5,199,207, or 17.9 percent, in 2020 versus 2019.

Net interest income for 2021, 2020 and 2019 was \$47,713,115, \$40,367,817 and \$36,935,217, respectively, reflecting increases of \$7,345,298, or 18.2 percent, for 2021 versus 2020 and \$3,432,600, or 9.3 percent, for 2020 versus 2019. 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:

	2021		2020		2019	
	Average Balance	Interest	Average Balance	Interest	Average Balance	Interest
Loans	\$ 1,778,001,755	\$ 77,813,673	\$ 1,416,604,314	\$ 68,737,980	\$ 1,286,986,163	\$ 71,381,626
Investments	865,925	49,039	1,580,888	91,154	2,762,953	174,334
Total interest-earning assets	1,778,867,680	77,862,712	1,418,185,202	68,829,134	1,289,749,116	71,555,960
Interest-bearing liabilities	1,577,668,479	30,149,597	1,240,498,781	28,461,317	1,121,255,209	34,620,743
Impact of capital	\$ 201,199,201		\$ 177,686,421		\$ 168,493,907	
Net interest income		\$ 47,713,115		\$ 40,367,817		\$ 36,935,217

	2021	2020	2019
	Average Yield	Average Yield	Average Yield
Yield on loans	4.38%	4.85%	5.55%
Yield on investments	5.66%	5.77%	6.31%
Total yield on interest-earning assets	4.38%	4.85%	5.55%
Cost of interest-bearing liabilities	1.91%	2.29%	3.09%
Interest rate spread	2.47%	2.56%	2.46%

	2021 vs. 2020			2020 vs. 2019		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income - loans	\$17,536,088	\$ (8,460,395)	\$ 9,075,693	\$ 7,189,141	\$ (9,832,787)	\$ (2,643,646)
Interest income - investments	(41,225)	(890)	(42,115)	(74,585)	(8,595)	(83,180)
Total interest income	17,494,863	(8,461,285)	9,033,578	7,114,556	(9,841,382)	(2,726,826)
Interest expense	7,735,684	(6,047,404)	1,688,280	3,681,884	(9,841,310)	(6,159,426)
Net interest income	\$ 9,759,179	\$ (2,413,881)	\$ 7,345,298	\$ 3,432,672	\$ (72)	\$ 3,432,600

Interest income for 2021 increased by \$9,033,578, or 13.1 percent, compared to 2020, primarily due to an increase in average loan volume. Interest expense for 2021 increased by \$1,688,280, or 5.9 percent, compared to 2020 due to an increase in interest-bearing liabilities offset by a decrease in the funding rate. The interest rate spread decreased by 9 basis points to 2.47 percent in 2021 from 2.56 percent in 2020, primarily because of spread compression. The interest rate spread increased by 10 basis points to 2.56 percent in 2020 from 2.46 percent in 2019, primarily because of increased yields.

Noninterest income for 2021 increased by \$4,173,801, or 20.0 percent, compared to 2020, due primarily to an increase in patronage income, loan fees and financially related services income. Noninterest income for 2020 increased by \$2,842,252, or 15.7 percent, compared to 2019, due primarily to an increase in patronage income, loan fees and financially related services income.

Provisions for loan losses decreased by \$4,991,744, or 320.6 percent, compared to 2020, due to a decrease in the valuation allowance related to the COVID-19 pandemic that was established in 2020, an increase in guaranteed loans and an increase in credit quality.

Operating expenses consist primarily of salaries, employee benefits and purchased services. Expenses for purchased services may include administrative services, marketing, information systems, accounting and loan processing, among others. The Association's noninterest expenses for 2021 increased \$4,789,573, or 18.9 percent, compared to 2020, due primarily to increases in salaries,

purchased services, Insurance Fund premiums and Farmer Mac guarantee fees. Noninterest expenses for 2020 increased \$1,513,955, or 6.4 percent, compared to 2019, due primarily to increases in salaries and employee benefits, purchased services and occupancy expense. Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs resulted in the capitalization of \$5,070,152, \$2,894,791 and \$2,101,509 for 2021, 2020 and 2019, respectively, in origination costs, which will be amortized over the life of the loans as an adjustment to yield in net interest income. The capitalized costs consisted of salaries and benefits related to the origination of loans.

For the year ended December 31, 2021, the Association's return on average assets was 2.5 percent, as compared to 2.3 percent and 2.2 percent for the years ended December 31, 2020 and 2019, respectively. For the year ended December 31, 2021, the Association's return on average members' equity was 18.9 percent, as compared to 15.6 percent and 13.9 percent for the years ended December 31, 2020 and 2019, 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 \$1,804,831,571, \$1,364,703,280 and \$1,140,484,754 as of December 31, 2021, 2020 and 2019, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 1.91 percent, 2.29 percent and 3.09 percent at December 31, 2021, 2020 and 2019, 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, 2020, is due to increased debt on match-funded loan assets. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$213,035,272, \$200,458,994 and \$176,404,728 at December 31, 2021, 2020 and 2019, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2021, was \$2,018,267,352 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, to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued during 2022. As borrower payments are received, they are applied to the Association's note payable to the Bank.

In July 2017, the United Kingdom's Financial Conduct Authority, the authority regulating the London Inter-Bank Offered Rate (LIBOR) announced that it will stop persuading or compelling banks to submit rates for the calculation of the LIBOR after 2021. Since this announcement, central banks around the world, including the Federal Reserve, have commissioned working groups with the goal of finding suitable replacements for LIBOR. In the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee (ARRC) of the Federal Reserve Board and the Federal Reserve Bank of New York. Specifically, the ARRC has proposed the Secured Overnight Financing Rate (SOFR) as the recommended alternative to LIBOR. SOFR is based on a broad segment of the overnight Treasury repurchase market and is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities. The Bank and Association are currently evaluating the impacts of a potential phase-out of the LIBOR benchmark interest rate, including the possibility of using SOFR as an alternative to LIBOR. The transition from LIBOR to SOFR is expected to be complex and to include the development of term and credit adjustments to minimize, to the extent possible, discrepancies between LIBOR and SOFR. Uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect the trading market for LIBOR based instruments, including certain Farm Credit Systemwide debt securities, the Bank's borrowings, loans, investments, derivatives and other assets and liabilities that are indexed to LIBOR.

The Bank established a LIBOR Workgroup, with cross-functional representation from the finance, operations, credit and legal departments. The LIBOR Workgroup is progressing in implementing its transition plan to an alternative benchmark rate. The LIBOR Workgroup coordinates outreach to the district's associations and with other Farm Credit System institutions, especially the Funding Corporation. The Association has established a LIBOR Phase-Out Committee that developed an initial action plan for transition to an alternate benchmark rate.

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 \$235,406,861, \$218,654,900 and \$204,908,714 at December 31, 2021, 2020 and 2019, respectively.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-weighted assets as defined by the FCA. The permanent capital ratio measures available at-risk capital relative to risk-weighted assets and off-balance-sheet contingencies. The ratio is an indicator of the Association's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The Association's permanent capital ratio at December 31, 2021, 2020 and 2019, was 12.6 percent, 13.5 percent and 14.2 percent, respectively. The Association is required to maintain a minimum common equity tier 1 (CET1), tier 1 capital and total capital ratios of 4.5 percent, 6.0 percent and 8.0 percent, along with a capital conservation buffer of 2.5 percent applicable to each ratio, respectively. The 2.5 percent capital conservation buffer was phased in over a three-year period ending on December 31, 2019. The Association's common equity tier 1 ratio at December 31, 2021, 2020 and 2019, was 12.6 percent, 13.5 percent and 14.2 percent, respectively. The tier 1 capital ratio at December 31, 2021, 2020 and 2019, was 12.6 percent, 13.5 percent and 14.2 percent, respectively. The total capital ratio was 12.8 percent, 13.9 percent and 14.5 percent at December 31, 2021, 2020 and 2019, respectively. Under the new regulations, the Association is required to maintain a minimum tier 1 leverage ratio of 4.0 percent, along with a leverage buffer of 1.0 percent, and a minimum unallocated retained earnings equivalents (UREE) leverage ratio of 1.5 percent. The Association's tier 1 leverage ratio at December 31, 2021, 2020 and 2019, was 11.4 percent, 13.3 percent and 14.0 percent, respectively. The UREE leverage ratio was 9.0 percent, 10.1 percent and 10.6 percent at December 31, 2021, 2020 and 2019, respectively.

In 2021, 2020 and 2019, the Association paid patronage distributions of \$23,701,338, \$19,034,999 and \$17,866,041, respectively. In December 2021, the board of directors approved an estimated cash patronage distribution of \$20,370,325 to be paid in April 2022. See Note 11 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

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, 2021, 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 associations 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 associations 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 associations 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 associations with guidance on the transition away from LIBOR, clarifies the meaning of new LIBOR contracts, and provides guidance on using alternative reference rates.

Relationship With the Bank:

The Association's statutory obligation to borrow only from the Bank is discussed in Note 10 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 10 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 14 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 87 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 Texas Farm Credit Services, ACA

Opinion

We have audited the accompanying consolidated financial statements of Texas Farm Credit Services, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2021, 2020 and 2019, 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, 2021, 2020 and 2019, 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 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 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 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 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 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 2021 Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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



Austin, Texas
March 11, 2022

TEXAS FARM CREDIT SERVICES

CONSOLIDATED BALANCE SHEET

	December 31,		
	2021	2020	2019
<u>Assets</u>			
Cash	\$ 49,663	\$ 2,373,598	\$ 7,188,050
Investments - Held to Maturity	734,626	1,054,100	2,660,691
Loans	2,014,918,904	1,563,259,965	1,314,083,263
Less: allowance for loan losses	3,016,536	5,999,691	4,323,904
Net loans	2,011,902,368	1,557,260,274	1,309,759,359
Accrued interest receivable	12,695,690	10,371,113	11,020,248
Investment in and receivable from the Farm Credit Bank of Texas:			
Capital stock	30,952,565	24,760,550	22,652,940
Other	1,332,270	719,400	543,605
Deferred taxes, net	199,554	711,938	708,499
Other property owned, net	-	-	3,101,394
Premises and equipment	15,146,253	14,367,270	14,937,777
Other assets	8,320,554	3,026,151	3,340,834
Total assets	<u>\$ 2,081,333,543</u>	<u>\$ 1,614,644,394</u>	<u>\$ 1,375,913,397</u>
<u>Liabilities</u>			
Note payable to the Farm Credit Bank of Texas	\$ 1,804,831,571	\$ 1,364,703,280	\$ 1,140,484,754
Advance conditional payments	300,030	490,138	535,693
Accrued interest payable	2,851,345	2,237,465	2,820,460
Drafts outstanding	247,204	77,855	121,374
Patronage distributions payable	20,370,325	14,851,050	12,840,000
Other liabilities	17,326,207	13,629,706	14,202,402
Total liabilities	<u>1,845,926,682</u>	<u>1,395,989,494</u>	<u>1,171,004,683</u>
<u>Members' Equity</u>			
Capital stock and participation certificates	4,364,895	4,174,745	3,791,365
Additional paid-in capital	47,596,495	47,596,495	47,596,495
Allocated retained earnings	54,627,414	57,255,152	56,437,331
Unallocated retained earnings	129,133,773	110,209,297	97,793,661
Accumulated other comprehensive (loss)	(315,716)	(580,789)	(710,138)
Total members' equity	<u>235,406,861</u>	<u>218,654,900</u>	<u>204,908,714</u>
Total liabilities and members' equity	<u>\$ 2,081,333,543</u>	<u>\$ 1,614,644,394</u>	<u>\$ 1,375,913,397</u>

The accompanying notes are an integral part of these consolidated financial statements.
Texas Farm Credit Services — 2021 Annual Report

TEXAS FARM CREDIT SERVICES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2021	2020	2019
<u>Interest Income</u>			
Loans	\$ 77,813,673	\$ 68,737,980	\$ 71,381,626
Investments	49,039	91,154	174,334
Total interest income	77,862,712	68,829,134	71,555,960
<u>Interest Expense</u>			
Note payable to the Farm Credit Bank of Texas	30,149,455	28,558,754	34,512,112
Advance conditional payments	142	1,827	4,834
Other	-	(99,264)	103,797
Total interest expense	30,149,597	28,461,317	34,620,743
Net interest income	47,713,115	40,367,817	36,935,217
(Reversal of) provision for loan losses and other property owned	(3,434,679)	1,557,065	2,134,945
Net interest income after provision for losses	51,147,794	38,810,752	34,800,272
<u>Noninterest Income</u>			
Income from the Farm Credit Bank of Texas:			
Patronage income	13,972,755	12,327,234	11,148,559
Loan fees	5,314,641	3,343,090	2,161,675
Financially related services income	4,938,835	4,483,776	3,946,509
(Loss) gain on other property owned, net	-	(67,320)	40,913
Gain on sale of premises and equipment, net	579,658	252,311	299,470
Other noninterest income	287,188	580,185	479,898
Total noninterest income	25,093,077	20,919,276	18,077,024
<u>Noninterest Expenses</u>			
Salaries and employee benefits	17,045,906	16,187,454	15,418,896
Directors' expense	523,786	463,752	536,190
Purchased services	1,794,222	1,109,619	794,292
Travel	1,301,380	989,765	1,405,732
Occupancy and equipment	2,875,434	2,473,064	1,883,676
Communications	382,806	374,221	383,211
Advertising	402,803	284,018	201,008
Public and member relations	1,163,912	762,929	777,856
Supervisory and exam expense	459,883	431,122	443,453
Insurance Fund premiums	2,374,492	1,098,201	921,259
Other noninterest expense	1,775,668	1,136,574	1,031,191
Total noninterest expenses	30,100,292	25,310,719	23,796,764
Income before income taxes	46,140,579	34,419,309	29,080,532
Provision for income taxes	623,228	139,803	233
NET INCOME	45,517,351	34,279,506	29,080,299
Other comprehensive income (loss), net of tax	265,073	129,349	(511,553)
COMPREHENSIVE INCOME	\$ 45,782,424	\$ 34,408,855	\$ 28,568,746

*The accompanying notes are an integral part of these consolidated financial statements.
Texas Farm Credit Services — 2021 Annual Report*

TEXAS FARM CREDIT SERVICES

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2018	\$ 4,100,095	\$ 47,596,495	\$ 54,986,492	\$ 89,370,242	\$ (198,585)	\$ 195,854,739
Comprehensive income	-	-	-	29,080,299	(511,553)	28,568,746
Capital stock/participation certificates and allocated retained earnings issued	409,855	-	-	-	-	409,855
Capital stock/participation certificates and allocated retained earnings retired	(718,585)	-	-	-	-	(718,585)
Patronage dividends:						
Cash	-	-	(6,299,161)	(12,906,880)	-	(19,206,041)
Capital stock/participation certificates and allocated retained earnings	-	-	7,750,000	(7,750,000)	-	-
Balance at December 31, 2019	3,791,365	47,596,495	56,437,331	97,793,661	(710,138)	204,908,714
Comprehensive income	-	-	-	34,279,506	129,349	34,408,855
Capital stock/participation certificates issued	631,950	-	-	-	-	631,950
Capital stock/participation certificates and allocated retained earnings retired	(248,570)	-	-	-	-	(248,570)
Patronage dividends:						
Cash	-	-	(6,174,679)	(14,871,370)	-	(21,046,049)
Capital stock/participation certificates and allocated retained earnings	-	-	6,992,500	(6,992,500)	-	-
Balance at December 31, 2020	4,174,745	47,596,495	57,255,152	110,209,297	(580,789)	218,654,900
Comprehensive income	-	-	-	45,517,351	265,073	45,782,424
Capital stock/participation certificates issued	941,700	-	-	-	-	941,700
Capital stock/participation certificates and allocated retained earnings retired	(751,550)	-	-	-	-	(751,550)
Patronage dividends:						
Cash	-	-	(8,656,488)	(20,564,125)	-	(29,220,613)
Capital stock/participation certificates and allocated retained earnings	-	-	6,028,750	(6,028,750)	-	-
Balance at December 31, 2021	\$ 4,364,895	\$ 47,596,495	\$ 54,627,414	\$ 129,133,773	\$ (315,716)	\$ 235,406,861

The accompanying notes are an integral part of these consolidated financial statements.
Texas Farm Credit Services — 2021 Annual Report

TEXAS FARM CREDIT SERVICES

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2021	2020	2019
Cash flows from operating activities:			
Net income	\$ 45,517,351	\$ 34,279,506	\$ 29,080,299
Adjustments to reconcile net income to net cash provided by operating activities:			
(Loan loss reversal) provision for loan losses	(3,402,731)	1,641,936	1,435,839
(Provision reversal) provision for acquired property	-	(9,764)	699,106
Gain on sale of other property owned, net	-	(7,887)	(40,913)
Depreciation	1,370,778	1,319,379	1,152,071
Amortization (accretion) of net (premiums) discounts in investments	39,564	(275,214)	(178,963)
Gain on sale of premises and equipment, net	(579,658)	(252,311)	(299,470)
(Increase) decrease in accrued interest receivable	(2,324,577)	649,135	(1,007,340)
Increase in other receivables from the Farm Credit Bank of Texas	(612,870)	(175,795)	(487,951)
Decrease (increase) in deferred tax assets	512,384	(3,439)	(145,610)
(Increase) decrease in other assets	(5,294,403)	314,683	(78,182)
Increase (decrease) in accrued interest payable	613,880	(582,995)	165,713
Increase (decrease) in other liabilities	3,961,574	(443,347)	1,822,562
Net cash provided by operating activities	<u>39,801,292</u>	<u>36,453,887</u>	<u>32,117,161</u>
Cash flows from investing activities:			
Increase in loans, net	(451,698,503)	(249,211,814)	(91,117,576)
Cash recoveries of loans previously charged off	419,576	35,434	478,986
Proceeds from (purchase) redemption of investment in the Farm Credit Bank of Texas	(6,192,015)	(2,107,610)	519,465
Investment securities held-to-maturity			
Proceeds from maturities, calls and prepayments	319,474	1,606,591	405,269
Purchases of premises and equipment	(2,231,257)	(757,229)	(3,823,252)
Proceeds from sales of premises and equipment	661,154	260,668	564,541
Proceeds from sales of other property owned	-	3,427,788	40,913
Net cash used in investing activities	<u>(458,721,571)</u>	<u>(246,746,172)</u>	<u>(92,931,654)</u>

*The accompanying notes are an integral part of these consolidated financial statements.
Texas Farm Credit Services — 2021 Annual Report*

TEXAS FARM CREDIT SERVICES

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2021	2020	2019
Cash flows from financing activities:			
Net draws on note payable to the Farm Credit Bank of Texas	440,128,291	224,218,526	81,045,962
Increase (decrease) in drafts outstanding	169,349	(43,519)	83,584
Decrease in advance conditional payments	(190,108)	(45,555)	(33,939)
Issuance of capital stock and participation certificates	941,700	631,950	409,855
Retirement of capital stock and participation certificates	(751,550)	(248,570)	(718,585)
Patronage distributions paid	(23,701,338)	(19,034,999)	(17,866,041)
Net cash provided by financing activities	416,596,344	205,477,833	62,920,836
Net (decrease) increase in cash	(2,323,935)	(4,814,452)	2,106,343
Cash at the beginning of the year	2,373,598	7,188,050	5,081,707
Cash at the end of the year	\$ 49,663	\$ 2,373,598	\$ 7,188,050
Supplemental schedule of noncash investing and financing activities:			
Loans transferred to other property owned	\$ -	\$ 308,743	\$ 3,800,500
Loans charged off	-	1,583	668,890
Patronage distributions declared	20,370,325	14,851,050	12,840,000
Transfer of allowance for loan losses from reserve for unfunded commitments	31,948	75,107	81,666
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	\$ 29,535,717	\$ 29,143,576	\$ 34,670,530
Income taxes	286,648	125,000	135,000

*The accompanying notes are an integral part of these consolidated financial statements.
Texas Farm Credit Services — 2021 Annual Report*

TEXAS FARM CREDIT SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND OPERATIONS:

- A. Organization: Texas Farm Credit Services, including its wholly owned subsidiaries, Texas Farm Credit Services, PCA and Texas Farm Credit Services, FLCA (collectively called “the Association”), is a member owned cooperative that provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Anderson, Angelina, Aransas, Atascosa, Austin, Bandera, Bee, Bexar, Bowie, Brooks, Cameron, Camp, Cass, Chambers, Cherokee, Collin, Cook, Dallas, Delta, Denton, DeWitt, Dimmit, Duval, Edwards, Fannin, Fayette, Franklin, Freestone, Frio, Goliad, Gonzales, Grayson, Gregg, Guadalupe, Hardin, Harrison, Henderson, Hidalgo, Hopkins, Houston, Hunt, Jasper, Jefferson, Jim Hogg, Jim Wells, Karnes, Kaufman, Kenedy, Kerr, Kinney, Kleberg, Lamar, LaSalle, Lavaca, Leon, Liberty, Limestone, Live Oak, Marion, Maverick, McMullen, Medina, Montgomery, Morris, Nacogdoches, Newton, Nueces, Orange, Panola, Polk, Rains, Real, Red River, Rockwall, Rusk, Sabine, San Augustine, San Jacinto, San Patricio, Shelby, Smith, Starr, Titus, Trinity, Tyler, Upshur, Uvalde, Val Verde, Van Zandt, Walker, Waller, Washington, Webb, Willacy, Wilson, Wood, Zapata, Zavala, parts of Refugio and the lower half of Lee in the State of Texas.

The Association is a lending association 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, 2021, 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, 2021, the district consisted of the Bank, one FLCA and 13 ACA parent companies, which have two wholly owned subsidiaries, an FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

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

The Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations; (2) to ensure the retirement of protected borrower capital at par or stated value; and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the FCSIC of providing assistance to certain troubled System associations 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 associations, their directors, officers and employees. Directors and employees of the Farm Credit associations 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, multiperil crop insurance and pasture, rangeland and forage 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 Texas Farm Credit Services, PCA and Texas Farm Credit Services, FLCA. All significant intercompany transactions have been eliminated in consolidation.

A. Recently Issued or Adopted Accounting Pronouncements:

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

In March 2020, the Financial Accounting Standards Board (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 applied the optional accounting expedients available under the guidance to debt and derivative contract modifications related to LIBOR transition in the fourth quarter of 2020. The impact of adoption was not material to the Association's financial condition or results of operations. In addition, the Association adopted the optional expedient as it relates to loans during the first quarter of 2021, and the impact of adoption was not material to the Association's financial condition or results of operations.

In 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 credit 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 associations. 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 associations 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, with planned adoption for interim and reporting periods beginning after December 15, 2022.

- B. Cash: Cash, as included in the financial statements, represents cash on hand and deposits at banks.
- C. Investments: The Association’s investments include mortgage-backed securities issued by Federal Agricultural Mortgage Corporation (Farmer Mac) for which the Association has the intent and ability to hold to maturity and that are consequently classified as held to maturity. Held-to-maturity investments are carried at cost, adjusted for the amortization of premiums and accretion of discounts. Changes in the fair value of these investments are not recorded unless the investment is deemed to be other-than-temporarily impaired. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a “credit loss”). If an entity intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income.

Gains and losses on the sales of investments available for sale are determined using the specific identification method. Premiums and discounts are amortized or accreted into interest income over the term of the respective issues. The Association does not hold investments for trading purposes.

The Association may also hold additional investments in accordance with mission-related investment and other investment programs approved by the Farm Credit Administration. These programs allow the Association to make investments that further the System’s mission to serve rural America. Mission-related investments for which the Association has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts.

In accordance with the Farm Credit Administration regulations, the Association, with the approval of its Bank, may purchase and hold investments to manage risks. The Association must identify and evaluate how the investments that it purchases contributes to management of its risks. Only securities that are issued by, or are unconditionally guaranteed or insured as to the timely payment of principal and interest by, the United States government or its agencies are investments that the Association may acquire. The total amount of investments allowed must not exceed 10 percent of the Association’s total outstanding loans.

The investments may not necessarily be held to maturity and accordingly have been classified as available for sale. These investments are reported at fair value and unrealized holding gains and losses on investments that are reported as a separate component of members' equity (accumulated other comprehensive income (loss)). Changes in the fair value of these investments are reflected as direct charges or credits to other comprehensive income, unless the investment is deemed to be other than temporarily impaired. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a “credit loss”). If an entity intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount

relating to credit loss and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income.

In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, the Association would record an additional other-than-temporary impairment and adjust the yield of the security prospectively. The amount of total other-than-temporary impairment for an available-for-sale security that previously was impaired is determined as the difference between its carrying amount prior to the determination of other-than-temporary impairment and its fair value.

Mortgage-backed securities issued by Farmer Mac are also considered allowable investments but are not included in the investment limitation specified by the Farm Credit Administration regulations. Farmer Mac investments are classified either as held-to-maturity or available-for-sale depending on the Association's ability and intent to hold the investment to maturity.

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

Loans acquired in a business combination are initially recognized at fair value and therefore, no "carryover" of the allowance for loan losses is permitted. Those loans with evidence of credit quality deterioration at purchase are required to follow the authoritative accounting guidance on "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." This guidance addresses accounting for differences between contractual cash flows and cash flows expected to be collected from the initial investment in loans if those differences are attributable, at least in part, to credit quality. The initial fair values for these types of loans are determined by discounting both principal and interest cash flows expected to be collected using an observable discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value. Subsequent decreases to expected principal cash flows will result in a charge to the provision for loan losses and a corresponding increase to allowance for loan losses. Subsequent increases in expected principal cash flows will result in recovery of any previously recorded allowance for loan losses, to the extent applicable, and a reclassification from non-accretable difference to accretable yield for any remaining increase. For variable rate loans, expected future cash flows were initially based on the rate in effect at acquisition; expected future cash flows are recalculated as rates change over the lives of the loans.

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. Accordingly, actual circumstances could vary significantly from the Association's expectations and predictions of those circumstances.

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."

- E. 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.

- F. 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.
- G. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized. Long-lived assets are reviewed for impairment whenever events or circumstances indicate the carrying amount of an asset group may not be recoverable.
- H. 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.
- I. 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. Also, the Association sponsors a nonqualified defined contribution 401(k) plan. The DB plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB plan is noncontributory and provides benefits based on salary and years of service. The "projected unit credit" actuarial method is used for financial reporting and funding purposes for the DB plan.

Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC plan direct the placement of their employers' contributions, 5.0 percent of eligible pay for the year ended December 31, 2021, 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 \$812,662, \$708,776 and \$642,151 for the years ended December 31, 2021, 2020 and 2019, respectively. For the DB plan, the Association recognized pension costs of \$632,970, \$238,309 and \$420,239 for the years ended December 31, 2021, 2020 and 2019, respectively.

The Association also participates in the Farm Credit Benefits Alliance 401(k) Plan, which requires the Associations to match 100 percent of employee contributions up to 3.0 percent of eligible earnings and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The Association's contributions to the 401(k) plan were \$608,554, \$530,177 and \$485,776 for the years ended December 31, 2021, 2020 and 2019, respectively.

In addition to the DB plan, the DC plan and the Farm Credit Benefits Alliance 401(k) plans above, the Association sponsors a defined contribution supplemental retirement plan. This plan is a nonqualified 401(k) plan; therefore, the associated liabilities are included in the Association's consolidated balance sheet in other liabilities. The expenses of the nonqualified plan included in the Association's employee benefit costs were \$132,302, \$4,827 and \$57,044 for the years ended December 31, 2021, 2020 and 2019, 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.

- J. **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. The Association has no valuation allowance on its net deferred tax assets because management estimates a full utilization of these assets.

Deferred income taxes have not been provided by the Association on patronage stock distributions from the Bank prior to January 1, 1993, the adoption date of the FASB guidance on income taxes. Management's intent is (1) to permanently invest these and other undistributed earnings in the Bank, thereby indefinitely postponing their conversion to cash or (2) to pass through any distribution related to pre-1993 earnings to association borrowers through qualified patronage allocations.

The Association has not provided deferred income taxes on amounts allocated to the Association that relate to the Bank's post-1992 earnings to the extent that such earnings will be passed through to association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the Bank's post-1992 unallocated earnings. The Bank currently has no plans to distribute unallocated bank earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid at the Association level.

- K. **Patronage Refunds From the Farm Credit Bank of Texas:** The Association records patronage refunds from the Bank on an accrual basis.
- L. **Fair Value Measurement:** The FASB guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

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

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

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

securities, highly structured or long-term derivative contracts, certain loans and other property owned. Pension plan assets such as certain mortgage-backed securities that are supported by little or no market data in determining the fair value are included in Level 3.

The fair value disclosures are presented in Note 15, “Fair Value Measurements.”

- M. 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 — INVESTMENTS:

Held-to-Maturity Investments:

The Association holds Farmer Mac agricultural mortgage-backed securities. These securities were agricultural mortgage loans previously covered under a Long-Term Standby Commitment to Purchase agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac) were securitized. No gain or loss was recognized in the financial statements upon completion of the securitization. Terms of the agreement call for a guarantee fee of 20 basis points to 50 basis points to be paid to Farmer Mac, and for the Association to receive a 30 basis point fee for servicing the underlying loans.

The following is a summary of Farmer Mac agricultural mortgage-backed securities:

	December 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Fair Value	Weighted Average Yield	Weighted Average Life
Agricultural mortgage-backed securities	\$ 734,626	\$ 21,909	\$ 756,535	5.30%	3.97 Years
	December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Fair Value	Weighted Average Yield	Weighted Average Life
Agricultural mortgage-backed securities	\$ 1,054,100	\$ 34,001	\$ 1,088,101	5.32%	4.40 Years
	December 31, 2019				
	Amortized Cost	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life
Agricultural mortgage-backed securities	\$ 2,660,691	\$ (6,243)	\$ 2,654,448	5.53%	3.81 Years

NOTE 4 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

Loan Type	2021		2020		2019	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$1,635,980,127	81.2%	\$ 1,185,059,563	75.9%	\$ 982,110,300	74.8%
Production and intermediate term	226,249,957	11.2%	228,840,523	14.6%	223,427,089	17.0%
Agribusiness:						
Processing and marketing	71,151,825	3.5%	84,433,768	5.4%	75,272,101	5.7%
Farm-related business	33,817,546	1.7%	23,777,888	1.5%	3,021,587	0.2%
Loans to cooperatives	20,354,200	1.0%	14,191,543	0.9%	12,955,307	1.0%
Communication	16,117,601	0.8%	19,806,739	1.3%	10,543,602	0.8%
Agricultural export finance	4,086,388	0.2%	-	0.0%	-	0.0%
Water and waste water	3,096,879	0.2%	2,083,988	0.1%	-	0.0%
Energy	2,080,747	0.1%	2,288,383	0.1%	2,803,913	0.2%
Rural residential real estate	1,135,612	0.1%	1,198,047	0.1%	2,284,841	0.2%
Mission-related investments	848,022	0.0%	1,579,523	0.1%	1,664,523	0.1%
Total	<u>\$2,014,918,904</u>	<u>100.0%</u>	<u>\$ 1,563,259,965</u>	<u>100.0%</u>	<u>\$ 1,314,083,263</u>	<u>100.0%</u>

At December 31, 2021, the Association held loans totaling \$745,003 extended under the Rural America Bond Program approved by the FCA. The program is designed to meet the growing and changing needs of agricultural enterprises, agribusinesses and rural communities by providing investment in rural areas.

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, 2021:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 53,761,502	\$ 94,538,257	\$ 10,500,790	\$ 1,700,000	\$ 64,262,292	\$ 96,238,257
Production and intermediate term	26,103,880	12,725,911	-	-	26,103,880	12,725,911
Agribusiness	89,418,490	-	-	-	89,418,490	-
Communication	16,117,601	-	-	-	16,117,601	-
Agricultural export finance	4,086,388	-	-	-	4,086,388	-
Water and waste water	3,096,879	-	-	-	3,096,879	-
Energy	2,080,747	-	-	-	2,080,747	-
Total	<u>\$194,665,487</u>	<u>\$107,264,168</u>	<u>\$ 10,500,790</u>	<u>\$ 1,700,000</u>	<u>\$205,166,277</u>	<u>\$108,964,168</u>

Geographic Distribution:

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

County	2021	2020	2019
Hidalgo	4.4%	5.7%	6.8%
Fayette	2.6%	2.8%	3.0%
Henderson	2.5%	2.1%	2.4%
Washington	2.4%	3.0%	2.5%
Bandera	2.2%	2.4%	3.0%
Grayson	2.1%	1.4%	1.2%
Frio	2.1%	1.5%	1.0%
Nueces	2.1%	2.6%	2.9%
Other	79.6%	78.5%	77.2%
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	2021		2020		2019	
	Amount	%	Amount	%	Amount	%
Hunting, Trapping and Game Propagation	\$ 690,592,383	34.3%	\$ 473,507,832	30.3%	\$ 378,990,323	28.8%
Crops and Agricultural Commodities	630,897,410	31.3%	506,506,051	32.4%	421,212,353	32.1%
Livestock	492,516,890	24.4%	371,794,513	23.8%	339,997,952	25.9%
Farm-Related Operations	199,521,719	9.9%	209,713,712	13.4%	171,463,868	13.0%
Rural Home Loans	1,390,502	0.1%	1,737,857	0.1%	2,418,767	0.2%
Total	\$ 2,014,918,904	100.0%	\$ 1,563,259,965	100.0%	\$ 1,314,083,263	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, 2021, 2020 and 2019, loans totaling \$310,635,666, \$65,501,248 and \$25,374,738, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled \$792,011, \$184,883 and \$117,402 in 2021, 2020 and 2019, respectively, and are included in "other noninterest expense."

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

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

	December 31, 2021	December 31, 2020	December 31, 2019
Nonaccrual loans:			
Real estate mortgage	\$ 5,631,422	\$ 3,905,786	\$ 5,288,762
Production and intermediate term	2,108,750	2,737,500	3,023,155
Energy	577,686	-	-
Rural residential real estate	-	-	37,617
Total nonaccrual loans	<u>8,317,858</u>	<u>6,643,286</u>	<u>8,349,534</u>
Accruing restructured loans:			
Mission-related investments	<u>752,742</u>	<u>782,380</u>	<u>810,911</u>
Total accruing restructured loans	<u>752,742</u>	<u>782,380</u>	<u>810,911</u>
Accruing loans 90 days or more past due:			
Production and intermediate term	20	10	5
Agribusiness	<u>-</u>	<u>4,539</u>	<u>-</u>
Total accruing loans 90 days or more past due	<u>20</u>	<u>4,549</u>	<u>5</u>
Total nonperforming loans	9,070,620	7,430,215	9,160,450
Other property owned	<u>-</u>	<u>-</u>	<u>3,101,394</u>
Total nonperforming assets	<u>\$ 9,070,620</u>	<u>\$ 7,430,215</u>	<u>\$ 12,261,844</u>

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:

	2021		2020		2019	
Real estate mortgage						
Acceptable	98.8	%	97.6	%	96.1	%
OAEM	0.6	%	1.0	%	2.6	%
Substandard/doubtful	0.6	%	1.4	%	1.3	%
	<u>100.0</u>	%	<u>100.0</u>	%	<u>100.0</u>	%
Production and intermediate term						
Acceptable	93.8	%	91.6	%	89.6	%
OAEM	2.4	%	3.4	%	5.6	%
Substandard/doubtful	3.8	%	5.0	%	4.8	%
	<u>100.0</u>	%	<u>100.0</u>	%	<u>100.0</u>	%
Loans to cooperatives						
Acceptable	97.9	%	100.0	%	94.9	%
OAEM	2.1	%	-	%	5.1	%
Substandard/doubtful	-	%	-	%	-	%
	<u>100.0</u>	%	<u>100.0</u>	%	<u>100.0</u>	%
Processing and marketing						
Acceptable	100.0	%	96.1	%	92.9	%
OAEM	-	%	3.9	%	7.1	%
Substandard/doubtful	-	%	-	%	-	%
	<u>100.0</u>	%	<u>100.0</u>	%	<u>100.0</u>	%
Farm-related business						
Acceptable	59.2	%	78.7	%	100.0	%
OAEM	-	%	-	%	-	%
Substandard/doubtful	40.8	%	21.3	%	-	%
	<u>100.0</u>	%	<u>100.0</u>	%	<u>100.0</u>	%
Communication						
Acceptable	100.0	%	100.0	%	100.0	%
OAEM	-	%	-	%	-	%
Substandard/doubtful	-	%	-	%	-	%
	<u>100.0</u>	%	<u>100.0</u>	%	<u>100.0</u>	%
Energy						
Acceptable	72.2	%	69.6	%	100.0	%
OAEM	-	%	-	%	-	%
Substandard/doubtful	27.8	%	30.4	%	-	%
	<u>100.0</u>	%	<u>100.0</u>	%	<u>100.0</u>	%
Water and waste water						
Acceptable	100.0	%	100.0	%	-	%
OAEM	-	%	-	%	-	%
Substandard/doubtful	-	%	-	%	-	%
	<u>100.0</u>	%	<u>100.0</u>	%	<u>-</u>	%
Rural residential real estate						
Acceptable	57.6	%	57.2	%	74.6	%
OAEM	33.7	%	42.8	%	23.8	%
Substandard/doubtful	8.7	%	-	%	1.6	%
	<u>100.0</u>	%	<u>100.0</u>	%	<u>100.0</u>	%
Agricultural export finance						
Acceptable	100.0	%	-	%	-	%
OAEM	-	%	-	%	-	%
Substandard/doubtful	-	%	-	%	-	%
	<u>100.0</u>	%	<u>-</u>	%	<u>-</u>	%
Mission-related investments						
Acceptable	100.0	%	100.0	%	100.0	%
OAEM	-	%	-	%	-	%
Substandard/doubtful	-	%	-	%	-	%
	<u>100.0</u>	%	<u>100.0</u>	%	<u>100.0</u>	%
Total Loans						
Acceptable	97.6	%	96.4	%	94.8	%
OAEM	0.8	%	1.5	%	3.4	%
Substandard/doubtful	1.6	%	2.1	%	1.8	%
	<u>100.0</u>	%	<u>100.0</u>	%	<u>100.0</u>	%

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

The following tables provide an aging analysis of past due loans (including accrued interest) as of December 31, 2021, 2020 and 2019:

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	\$ 3,659,495	\$ 1,297,005	\$ 4,956,500	\$ 1,640,554,214	\$ 1,645,510,714	\$ -
Production and intermediate term	110,531	20	110,551	228,244,293	228,354,844	20
Processing and marketing	-	-	-	71,306,910	71,306,910	-
Farm-related business	-	-	-	34,392,410	34,392,410	-
Loans to cooperatives	752,071	-	752,071	19,901,018	20,653,089	-
Communication	-	-	-	16,118,435	16,118,435	-
Agricultural export finance	-	-	-	4,092,141	4,092,141	-
Water and waste water	-	-	-	3,098,268	3,098,268	-
Energy	-	-	-	2,080,808	2,080,808	-
Rural residential real estate	99,977	-	99,977	1,040,119	1,140,096	-
Mission-related investments	-	-	-	853,092	853,092	-
Total	\$ 4,622,074	\$ 1,297,025	\$ 5,919,099	\$ 2,021,681,708	\$ 2,027,600,807	\$ 20

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	\$ 5,291,398	\$ 1,402,379	\$ 6,693,777	\$ 1,186,108,205	\$ 1,192,801,982	\$ -
Production and intermediate term	687,563	689,662	1,377,225	229,483,864	230,861,089	10
Processing and marketing	-	-	-	84,576,241	84,576,241	-
Farm-related business	-	-	-	23,893,922	23,893,922	-
Loans to cooperatives	-	4,539	4,539	14,505,313	14,509,852	4,539
Communication	-	-	-	19,807,802	19,807,802	-
Energy	-	-	-	2,288,775	2,288,775	-
Water and waste water	-	-	-	2,084,112	2,084,112	-
Mission-related investments	-	-	-	1,586,069	1,586,069	-
Rural residential real estate	109,917	-	109,917	1,092,841	1,202,758	-
Total	\$ 6,088,878	\$ 2,096,580	\$ 8,185,458	\$ 1,565,427,144	\$ 1,573,612,602	\$ 4,549

December 31, 2019:	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	\$ 7,750,213	\$ 1,889,151	\$ 9,639,364	\$ 980,688,535	\$ 990,327,899	\$ -
Production and intermediate term	996,705	702,530	1,699,235	224,103,142	225,802,377	5
Processing and marketing	-	-	-	75,468,841	75,468,841	-
Loans to cooperatives	-	-	-	13,054,651	13,054,651	-
Farm-related business	-	-	-	3,039,972	3,039,972	-
Communication	-	-	-	10,544,242	10,544,242	-
Energy	-	-	-	2,806,945	2,806,945	-
Rural residential real estate	119,183	37,617	156,799	2,135,254	2,292,053	-
Mission-related investments	69,590	-	69,590	1,602,533	1,672,123	-
Total	\$ 8,935,691	\$ 2,629,298	\$ 11,564,989	\$ 1,313,444,114	\$ 1,325,009,103	\$ 5

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, 2021, the total recorded investment of troubled debt restructured loans was \$838,726, including \$85,984 classified as nonaccrual and \$752,742 classified as accrual, with specific allowance for loan losses of \$18,121. As of December 31, 2021, there were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring.

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the year ended December 31, 2019. The pre-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The post-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred. There were no troubled debt restructuring that occurred for the years ended December 31, 2021 and 2020.

December 31, 2019:	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:		
Production and intermediate term	\$ 1,648,826	\$ 2,469,281

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). There were no charge-offs recorded at the modification date related to troubled debt restructurings that occurred during the year ended December 31, 2019.

The predominant form of concession granted for troubled debt restructuring includes loan modifications that include interest rates lower than the borrower could otherwise receive in the market based on creditworthiness. Other types of modifications include extension of the term, principal or accrued interest reductions, interest rate decreases and delayed payments. 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.

For the years ended December 31, 2021, 2020 and 2019, no loans met the accounting criteria as a troubled debt restructuring and that occurred within the previous 12 months of that year and for which there was a payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

The Association made no additional commitments to lend to borrowers whose loans were modified in troubled debt restructurings.

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

	Loans Modified as TDRs		
	December 31, 2021	December 31, 2020	December 31, 2019
Troubled debt restructurings:			
Real estate mortgage	\$ 85,984	\$ -	\$ -
Mission-related investments	752,742	782,380	810,911
Total	<u>\$ 838,726</u>	<u>\$ 782,380</u>	<u>\$ 810,911</u>
	TDRs in Nonaccrual Status*		
	December 31, 2021	December 31, 2020	December 31, 2019
Troubled debt restructurings:			
Real estate mortgage	\$ 85,984	\$ 128,183	\$ 230,237
Production and intermediate term	-	1,901,360	2,229,485
Total	<u>\$ 85,984</u>	<u>\$ 2,029,543</u>	<u>\$ 2,459,722</u>

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

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/2021	Unpaid Principal Balance ^a	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Energy and water/waste water	\$ 577,686	\$ 577,686	\$ 159,946	\$ 551,999	\$ -
Mission-related investments	50,675	50,003	18,121	50,671	4,079
Total	<u>\$ 628,361</u>	<u>\$ 627,689</u>	<u>\$ 178,067</u>	<u>\$ 602,670</u>	<u>\$ 4,079</u>
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 5,631,422	\$ 5,703,021	\$ -	\$ 5,238,799	\$ 280,018
Production and intermediate term	2,108,770	2,472,551	-	2,065,586	15,752
Mission-related investments	702,067	695,000	-	703,356	42,969
Total	<u>\$ 8,442,259</u>	<u>\$ 8,870,572</u>	<u>\$ -</u>	<u>\$ 8,007,741</u>	<u>\$ 338,739</u>
Total impaired loans:					
Real estate mortgage	\$ 5,631,422	\$ 5,703,021	\$ -	\$ 5,238,799	\$ 280,018
Production and intermediate term	2,108,770	2,472,551	-	2,065,586	15,752
Energy and water/waste water	577,686	577,686	159,946	551,999	-
Mission-related investments	752,742	745,003	18,121	754,027	47,048
Total	<u><u>\$ 9,070,620</u></u>	<u><u>\$ 9,498,261</u></u>	<u><u>\$ 178,067</u></u>	<u><u>\$ 8,610,411</u></u>	<u><u>\$ 342,818</u></u>

^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	\$ 31,764	\$ 31,764	\$ 17,298	\$ 18,493	\$ -
Production and intermediate term	87,127	88,710	20,924	72,760	-
Mission-related investments	52,702	52,003	17,330	52,344	4,213
Total	<u>\$ 171,593</u>	<u>\$ 172,477</u>	<u>\$ 55,552</u>	<u>\$ 143,597</u>	<u>\$ 4,213</u>
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 3,874,022	\$ 3,955,118	\$ -	\$ 3,880,891	\$ 272,723
Production and intermediate term	2,650,383	3,422,698	-	2,999,339	26,850
Loans to cooperatives	4,539	-	-	107,073	-
Mission-related investments	729,678	722,339	-	731,925	44,650
Total	<u>\$ 7,258,622</u>	<u>\$ 8,100,155</u>	<u>\$ -</u>	<u>\$ 7,719,228</u>	<u>\$ 344,223</u>
Total impaired loans:					
Real estate mortgage	\$ 3,905,786	\$ 3,986,882	\$ 17,298	\$ 3,899,384	\$ 272,723
Production and intermediate term	2,737,510	3,511,408	20,924	3,072,099	26,850
Loans to cooperatives	4,539	-	-	107,073	-
Mission-related investments	782,380	774,342	17,330	784,269	48,863
Total	<u><u>\$ 7,430,215</u></u>	<u><u>\$ 8,272,632</u></u>	<u><u>\$ 55,552</u></u>	<u><u>\$ 7,862,825</u></u>	<u><u>\$ 348,436</u></u>

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

	Recorded Investment at 12/31/2019	Unpaid Principal Balance ^a	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Mission-related investments	\$ 53,715	\$ 53,003	\$ 16,509	\$ 53,331	\$ 4,294
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 5,288,762	\$ 5,393,514	\$ -	\$ 5,601,507	\$ 108,870
Production and intermediate term	3,023,160	5,428,487	-	4,134,498	23,982
Rural residential real estate	37,617	72,517	-	32,149	-
Mission-related investments	757,196	749,597	-	758,804	46,318
Total	<u>\$ 9,106,735</u>	<u>\$ 11,644,115</u>	<u>\$ -</u>	<u>\$ 10,526,958</u>	<u>\$ 179,170</u>
Total impaired loans:					
Real estate mortgage	\$ 5,288,762	\$ 5,393,514	\$ -	\$ 5,601,507	\$ 108,870
Production and intermediate term	3,023,160	5,428,487	-	4,134,498	23,982
Rural residential real estate	37,617	72,517	-	32,149	-
Mission-related investments	810,911	802,600	16,509	812,135	50,612
Total	<u>\$ 9,160,450</u>	<u>\$ 11,697,118</u>	<u>\$ 16,509</u>	<u>\$ 10,580,289</u>	<u>\$ 183,464</u>

^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, 2021, 2020 and 2019.

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

	2021	2020	2019
Interest income that would have been recognized under the original terms	\$ 1,863,198	\$ 924,030	\$ 1,471,742
Less: interest income recognized	(342,818)	(348,436)	(183,464)
Foregone interest income	<u>\$ 1,520,380</u>	<u>\$ 575,594</u>	<u>\$ 1,288,278</u>

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	Water and Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Mission- Related Investments	Total
Allowance for Credit Losses:										
Balance at										
December 31, 2020	\$ 2,610,698	\$ 3,045,619	\$ 267,403	\$ 43,069	\$ 4,976	\$ 4,532	\$ 2,615	\$ -	\$ 20,779	\$ 5,999,691
Recoveries	9,460	410,116	-	-	-	-	-	-	-	419,576
Provision for loan losses	(716,070)	(2,730,769)	(121,546)	(24,463)	157,372	(955)	(1,299)	4,724	(1,673)	(3,434,679)
Other	(4,462)	36,410	-	-	-	-	-	-	-	31,948
Balance at										
December 31, 2021	<u>\$ 1,899,626</u>	<u>\$ 761,376</u>	<u>\$ 145,857</u>	<u>\$ 18,606</u>	<u>\$ 162,348</u>	<u>\$ 3,577</u>	<u>\$ 1,316</u>	<u>\$ 4,724</u>	<u>\$ 19,106</u>	<u>\$ 3,016,536</u>
Ending Balance:										
individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ 159,946	\$ -	\$ -	\$ -	\$ 18,121	\$ 178,067
Ending Balance:										
collectively evaluated for impairment	\$ 1,899,626	\$ 761,376	\$ 145,857	\$ 18,606	\$ 2,402	\$ 3,577	\$ 1,316	\$ 4,724	\$ 985	\$ 2,838,469
Recorded Investment in Loans Outstanding:										
Ending Balance at										
December 31, 2021	<u>\$ 1,645,510,714</u>	<u>\$ 228,354,844</u>	<u>\$ 126,352,409</u>	<u>\$ 16,118,435</u>	<u>\$ 2,080,808</u>	<u>\$ 3,098,268</u>	<u>\$ 1,140,096</u>	<u>\$ 4,092,141</u>	<u>\$ 853,092</u>	<u>\$ 2,027,600,807</u>
Ending balance for loans individually evaluated for impairment	\$ 5,631,422	\$ 2,108,770	\$ -	\$ -	\$ 577,686	\$ -	\$ -	\$ -	\$ 752,742	\$ 9,070,620
Ending balance for loans collectively evaluated for impairment	<u>\$ 1,639,879,292</u>	<u>\$ 226,246,074</u>	<u>\$ 126,352,409</u>	<u>\$ 16,118,435</u>	<u>\$ 1,503,122</u>	<u>\$ 3,098,268</u>	<u>\$ 1,140,096</u>	<u>\$ 4,092,141</u>	<u>\$ 100,350</u>	<u>\$ 2,018,530,187</u>

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Mission- Related Investments	Total
Allowance for Credit Losses:										
Balance at										
December 31, 2019	\$ 1,853,403	\$ 1,656,635	\$ 746,813	\$ 9,978	\$ 20,898	\$ -	\$ 11,724	\$ -	\$ 24,453	\$ 4,323,904
Charge-offs	-	(1,583)	-	-	-	-	-	-	-	(1,583)
Recoveries	35,434	-	-	-	-	-	-	-	-	35,434
Provision for loan losses	714,239	1,323,082	(479,410)	33,091	(15,922)	4,532	(9,109)	-	(3,674)	1,566,829
Other	7,622	67,485	-	-	-	-	-	-	-	75,107
Balance at										
December 31, 2020	<u>\$ 2,610,698</u>	<u>\$ 3,045,619</u>	<u>\$ 267,403</u>	<u>\$ 43,069</u>	<u>\$ 4,976</u>	<u>\$ 4,532</u>	<u>\$ 2,615</u>	<u>\$ -</u>	<u>\$ 20,779</u>	<u>\$ 5,999,691</u>
Ending Balance:										
individually evaluated for impairment	\$ 17,298	\$ 20,924	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,330	\$ 55,552
Ending Balance:										
collectively evaluated for impairment	\$ 2,593,400	\$ 3,024,695	\$ 267,403	\$ 43,069	\$ 4,976	\$ 4,532	\$ 2,615	\$ -	\$ 3,449	\$ 5,944,139
Recorded Investment in Loans Outstanding:										
Ending Balance at										
December 31, 2020	<u>\$1,192,801,982</u>	<u>\$ 230,861,089</u>	<u>\$122,980,015</u>	<u>\$ 19,807,802</u>	<u>\$ 2,288,775</u>	<u>\$2,084,112</u>	<u>\$ 1,202,758</u>	<u>\$ -</u>	<u>\$ 1,586,069</u>	<u>\$1,573,612,602</u>
Ending balance for loans individually evaluated for impairment	\$ 3,905,786	\$ 2,737,510	\$ 4,539	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 782,380	\$ 7,430,215
Ending balance for loans collectively evaluated for impairment	<u>\$1,188,896,196</u>	<u>\$ 228,123,579</u>	<u>\$122,975,476</u>	<u>\$ 19,807,802</u>	<u>\$ 2,288,775</u>	<u>\$2,084,112</u>	<u>\$ 1,202,758</u>	<u>\$ -</u>	<u>\$ 803,689</u>	<u>\$1,566,182,387</u>

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Mission- Related Investments	Total
Allowance for Credit Losses:										
Balance at										
December 31, 2018	\$ 1,321,472	\$ 860,965	\$ 746,813	\$ 9,978	\$ 20,898	\$ -	\$ 11,724	\$ -	\$ 24,453	\$ 2,996,303
Charge-offs	(195,867)	(473,023)	-	-	-	-	-	-	-	(668,890)
Recoveries	971	478,015	-	-	-	-	-	-	-	478,986
Provision for loan losses	747,273	688,566	-	-	-	-	-	-	-	1,435,839
Other	(20,446)	102,112	-	-	-	-	-	-	-	81,666
Balance at										
December 31, 2019	<u>\$ 1,853,403</u>	<u>\$ 1,656,635</u>	<u>\$ 746,813</u>	<u>\$ 9,978</u>	<u>\$ 20,898</u>	<u>\$ -</u>	<u>\$ 11,724</u>	<u>\$ -</u>	<u>\$ 24,453</u>	<u>\$ 4,323,904</u>
Ending Balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,509</u>	<u>\$ 16,509</u>
Ending Balance: collectively evaluated for impairment	<u>\$ 1,853,403</u>	<u>\$ 1,656,635</u>	<u>\$ 746,813</u>	<u>\$ 9,978</u>	<u>\$ 20,898</u>	<u>\$ -</u>	<u>\$ 11,724</u>	<u>\$ -</u>	<u>\$ 7,944</u>	<u>\$ 4,307,395</u>
Recorded Investment in Loans Outstanding:										
Ending Balance at										
December 31, 2019	<u>\$ 990,327,899</u>	<u>\$ 225,802,377</u>	<u>\$ 91,563,464</u>	<u>\$ 10,544,242</u>	<u>\$ 2,806,945</u>	<u>\$ -</u>	<u>\$ 2,292,053</u>	<u>\$ -</u>	<u>\$ 1,672,123</u>	<u>\$1,325,009,103</u>
Ending balance for loans individually evaluated for impairment	<u>\$ 5,290,729</u>	<u>\$ 3,023,155</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,617</u>	<u>\$ -</u>	<u>\$ 802,600</u>	<u>\$ 9,154,101</u>
Ending balance for loans collectively evaluated for impairment	<u>\$ 984,851,187</u>	<u>\$ 222,779,222</u>	<u>\$ 91,563,464</u>	<u>\$ 10,544,242</u>	<u>\$ 2,806,945</u>	<u>\$ -</u>	<u>\$ 2,254,436</u>	<u>\$ -</u>	<u>\$ 869,523</u>	<u>\$1,315,669,019</u>
Ending balance for loans acquired with deteriorated credit quality	<u>\$ 185,983</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 185,983</u>

NOTE 5 — LEASES

The components of lease expense were as follows:

	Classification	2021	2020	2019
Operating lease cost	Right-of-use asset	\$ 142,642	\$ 126,257	\$ 148,417
Short-term lease cost		14,400	16,801	21,000
Finance lease cost				
Amortization of right-of-use assets		(383)	2,221	4,022
Net lease cost		<u>\$ 156,659</u>	<u>\$ 145,279</u>	<u>\$ 173,439</u>

Other information related to leases was as follows:

	2021	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows for operating leases	\$ 142,259	\$ 128,478	\$ 152,439
Right-of-use assets obtained in exchange for new lease obligations:			
Operating leases	\$ 142,642	\$ 126,257	\$ 148,417

Lease term and discount rate are as follows:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Weighted average remaining lease term in years			
Operating leases	8.74	3.68	3.01
Weighted average discount rate			
Operating leases	1.16%	1.30%	2.71%

Future minimum lease payments under non-cancellable leases as of December 31, 2021, were as follows:

	<u>Operating Leases</u>
2022	\$ 150,301
2023	128,124
2024	126,057
2025	128,692
2026	78,031
Thereafter	467,635
Total lease payments	<u>\$ 1,078,840</u>

NOTE 6 — 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 7.5 percent, 6.9 percent and 6.8 percent of the issued stock of the Bank as of December 31, 2021, 2020 and 2019. As of those dates, the Bank's assets totaled \$33.1 billion, \$28.2 billion and \$25.7 billion and members' equity totaled \$2.0 billion, \$2.0 billion and \$1.8 billion. The Bank's earnings were \$254.6 million, \$251.1 million and \$203.0 million during 2021, 2020 and 2019.

NOTE 7 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Land and improvements	\$ 2,431,558	\$ 2,431,558	\$ 2,431,558
Building and improvements	12,870,746	12,718,516	12,688,257
Furniture and equipment	1,200,331	1,617,521	1,585,179
Computer equipment and software	825,492	1,276,284	743,036
Automobiles	1,778,262	1,683,794	1,785,284
Construction in progress	1,458,527	49,656	410,719
	<u>20,564,916</u>	<u>19,777,329</u>	<u>19,644,033</u>
Accumulated depreciation	(5,418,663)	(5,410,059)	(4,706,256)
Total	<u>\$ 15,146,253</u>	<u>\$ 14,367,270</u>	<u>\$ 14,937,777</u>

The Association leased office space in Dallas, Rockwall, Laredo, McAllen, Prosper and Taft. Lease expense was \$142,259, \$128,478 and \$159,039 for 2021, 2020 and 2019, respectively. The lease contracts range from monthly lease terms up to 10-year lease terms. None of the leases qualify as capital leases, and all lease contracts are considered operating leases. Minimum annual lease payments for the next five years total \$1,078,840. See Note 5, "Leases," for further details.

NOTE 8 — OTHER PROPERTY OWNED, NET:

The Association held no properties requiring classification as other property owned during the year ended December 31, 2021. Net gain (loss) on other property owned, net consists of the following for the years ended December 31:

	2020	2019
Gain (loss) on sale, net	\$ 7,887	\$ 41,464
Operating (expense), net	(75,207)	(551)
Net (loss) gain on other property owned	<u>\$ (67,320)</u>	<u>\$ 40,913</u>

NOTE 9 — OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	2021	2020	2019
Accounts receivable - other	\$ 4,875,480	\$ 26,691	\$ 14,949
Intangible assets	1,779,569	1,957,712	2,135,855
Right-of-use asset - building lease	1,018,551	380,068	363,720
Nonqualified deferred compensation	585,429	536,199	595,536
Prepaid expenses	47,059	117,481	221,866
Farmer Mac stock	8,000	8,000	8,000
Miscellaneous assets	6,466	-	908
Total	<u>\$ 8,320,554</u>	<u>\$ 3,026,151</u>	<u>\$ 3,340,834</u>

Other liabilities comprised the following at December 31:

	2021	2020	2019
Operating accounts payable	\$ 8,253,167	\$ 6,073,358	\$ 6,910,158
Post-retirement benefits liability	4,520,106	4,721,546	4,751,534
Insurance payable	2,374,492	1,098,201	926,727
Lease liability - building leases	1,018,551	380,068	363,720
Accrued annual leave	869,426	846,716	731,122
Allowance on unfunded loans	239,552	271,500	346,607
Miscellaneous liabilities	50,913	81,871	34,330
Federal income taxes payable	-	156,446	138,204
Total	<u>\$ 17,326,207</u>	<u>\$ 13,629,706</u>	<u>\$ 14,202,402</u>

The Association owns three crop insurance agencies within its territory. One agency was purchased in August 2018 for \$572,140, one agency was purchased in September 2017 for \$1,500,000 and one agency was purchased in March 2016 for \$600,000. All three purchases are classified as contractual relationship intangible assets based on the expected future benefit of customer contracts. Amortization of \$178,142 was recorded for 2021, and amortization of \$178,142 per year is estimated over the five succeeding fiscal years. At December 31, 2021, the balance of these intangible assets after amortization reported was \$1,779,569.

NOTE 10 — 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, 2021, 2020 and 2019, was \$1,804,831,571 at 1.91 percent, \$1,364,703,280 at 2.29 percent and \$1,140,484,754 at 3.09 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, 2021, 2020 and 2019, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2021, was \$2,018,267,352, 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, 2021, 2020 and 2019, the Association was not subject to remedies associated with the covenants in the general financing agreement.

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

NOTE 11 — MEMBERS' EQUITY:

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

Because the Association operates for the mutual benefit of its customer-owners and other customers and not for the benefit of any other equity investors, capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and bylaws, the Association can issue stock only at its par value of \$5 per share, the stock is not tradable and the stock can be retired only for the lesser of par value or book value. In these and other respects, the shares of stock in one association that were converted to shares of another association had identical rights and attributes. For this reason, the conversion of stock pursuant to the mergers occurred at a one-for-one exchange ratio. Management believes that because the stock in each association is fixed in value, the stock issued pursuant to the mergers provides no basis for estimating the fair value of the consideration transferred pursuant to the mergers. In the absence of a purchase price determination, the acquiring association identified and estimated the acquisition date fair value of the net assets of the acquired association instead of the acquisition date fair value of the equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed, were measured based on various estimates using assumptions that management believes are reasonable utilizing information then available. This evaluation produced a fair value of identifiable assets acquired and liabilities assumed that was substantially equal to the fair value of the member interests transferred in the mergers. The excess value received, by the acquiring association from the acquired association, over the par value of capital stock and participation certificates issued in the mergers was considered to be additional paid-in capital.

The Association classifies its retained earnings as either allocated or unallocated. Allocated retained earnings represents allocated patronage surplus that is eligible for cash redemption after seven years from issuance. Redemption of allocated retained earnings is at the sole discretion of the Association's board of directors. Unallocated retained earnings represent undistributed profits and nonqualified patronage surplus that has restrictions for future redemption.

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

In accordance with the Act and the Association's capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. The investment in Class B capital stock (in the case of agricultural loans to producers or participation certificates (in the purchase of rural home loans and farm-related business loans) 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 or joint owner of Class B and Class capital stock is entitled to a single vote, though participation certificates provide no voting rights to their owners.

Borrowers who wish to retain their investment in the Association after liquidating their loan balance may convert their Class B capital stock holdings to Class A capital stock. Within two years of repayment of a loan, the Association capital bylaws require the conversion of any borrower's outstanding Class B to Class A capital stock. Class A 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 all stock shares is made solely at the discretion of the Association's board of directors. At December 31, 2021, 2020 and 2019, the Association had \$14,415, \$521,375 and \$67,995, respectively, of Class A stock.

All borrower stock is at-risk. Any losses that result in impairment of the Association's capital stock shall be borne ratably, by each share or unit of all classes of common stock and participation certificates. Impaired stock and participation certificates shall be restored in the reverse sequence until each share of stock and unit of participation certificates has a book value equal to the APR or face value, respectively. In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities shall be distributed to stockholders.

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 declared but not distributed in cash are retained as allocated and unallocated retained earnings based on the classification of the distribution as qualified or nonqualified. The following patronage distributions were declared and paid in cash, allocated and/or unallocated retained earnings in 2021, 2020 and 2019, respectively:

Date Declared	Date Paid or Payable	Total Patronage
December 2021	April 2022	\$ 20,370,330
December 2021	December 2021	\$ 8,655,583
December 2020	April 2021	\$ 21,835,271
December 2020	December 2020	\$ 6,173,974
December 2019	April 2020	\$ 20,590,000
December 2019	December 2019	\$ 6,298,009
March 2019	April 2019	\$ 66,880
December 2018	April 2019	\$ 18,900,000

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, 2021, the Association is not prohibited from retiring stock or distributing earnings. Furthermore, neither the board nor senior management knows of any such prohibitions that may apply during the subsequent fiscal year.

The following sets forth the regulatory capital ratio requirements and ratios at December 31, 2021:

Risk-weighted:	Regulatory Minimums	Regulatory Minimums with Buffer	As of December 31, 2021
Common equity tier 1 ratio	4.50%	7.00%	12.61%
Tier 1 capital ratio	6.00%	8.50%	12.61%
Total capital ratio	8.00%	10.50%	12.79%
Permanent capital ratio	7.00%	7.00%	12.63%
Non-risk-weighted:			
Tier 1 leverage ratio	4.00%	5.00%	11.41%
UREE leverage ratio	1.50%	1.50%	8.97%

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 less than 14 months.
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status.

Risk-weighted assets is 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 revolvment, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System associations, and the amount of purchased investments in other System associations under the corresponding deduction approach, divided by average risk-weighted assets.
- Tier 1 capital ratio is common equity tier 1 plus noncumulative 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 associations 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 associations, 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 revolvment less certain regulatory required deductions including the amount of allocated investments in other System associations 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, 2021:

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	\$ 86,404,491	\$ 86,404,491	\$ 86,404,491	\$ 86,404,491
Paid-in capital	47,596,495	47,596,495	47,596,495	47,596,495
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	4,290,043	4,290,043	4,290,043	4,290,043
Allocated equities:				
Allocated equities held ≥ 7	57,225,055	57,225,055	57,225,055	57,225,055
Nonqualified allocated equities not subject to retirement	54,470,142	54,470,142	54,470,142	54,470,142
Allowance for loan losses and reserve for credit losses subject to certain limitations*	-	-	3,258,502	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(24,733,067)	(24,733,067)	(24,733,067)	(24,733,067)
Other regulatory required deductions	(1,908,228)	(1,908,228)	(1,908,228)	(1,908,228)
	<u>\$ 223,344,931</u>	<u>\$ 223,344,931</u>	<u>\$ 226,603,433</u>	<u>\$ 223,344,931</u>
Denominator:				
Risk-adjusted assets excluding allowance	\$ 1,797,692,524	\$ 1,797,692,524	\$ 1,797,692,524	\$ 1,797,692,524
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(26,641,295)	(26,641,295)	(26,641,295)	(26,641,295)
Allowance for loan losses	-	-	-	(3,067,049)
	<u>\$ 1,771,051,229</u>	<u>\$ 1,771,051,229</u>	<u>\$ 1,771,051,229</u>	<u>\$ 1,767,984,180</u>
Calculated ratio	12.61%	12.61%	12.79%	12.63%

*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, 2021:

(dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	\$ 86,404,491	\$ 86,404,491
Paid-in capital	47,596,495	47,596,495
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	4,290,043	-
Allocated equities:		
Allocated equities held ≥ 7	57,225,055	-
Nonqualified allocated equities not subject to retirement	54,470,142	54,470,142
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(24,733,067)	(11,022,481)
Other regulatory required deductions	(1,908,228)	(1,908,228)
	<u>\$ 223,344,931</u>	<u>\$ 175,540,419</u>
Denominator:		
Total Assets	\$ 1,992,970,447	\$ 1,992,970,447
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(35,580,743)	(35,580,743)
	<u>\$ 1,957,389,704</u>	<u>\$ 1,957,389,704</u>
Calculated ratio	11.41%	8.97%

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum capital standards. The Plan monitors projected patronage distributions, equity retirements and other actions that may decrease the Association's 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 an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board of directors.

An FCA regulation empowers the FCA to direct a transfer of funds or equities by one or more System associations to another System association 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.

The Association is authorized to have outstanding Class A common stock, Class B common stock, Class P common stock, Class C preferred stock and participation certificates. Borrowers who hold Class B common stock or participation certificates are eligible for patronage distribution from fiscal year net earnings. Subsequent distribution of allocated surplus does not require the recipient be a current stockholder of the Association. The Association has not issued and has no outstanding Class P common stock or Class C preferred stock.

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after the payment or retirement of all liabilities would be distributed to holders of stock and participation certificates. First, to the holders pro-rata of Class C preferred stock then outstanding until an amount equal to the aggregate par value of such stock has been distributed to such holder. Second, to the holders of common stock and participation certificates, pro-rata in proportion to the number of shares of units of stock or participation certificates then outstanding until an amount equal to the aggregate par value or unit value of all shares of such stock and participation certificates issued and outstanding has been distributed to such holders.

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Class A stock	2,883	104,275	13,799
Class B stock	863,327	724,105	737,144
Participation certificates	6,769	6,569	7,330
Total	<u>872,979</u>	<u>834,949</u>	<u>758,273</u>

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

Accumulated Other Comprehensive Loss

December 31, 2021	Net of Tax
Nonpension postretirement benefits	<u>\$ (315,716)</u>
December 31, 2020	Net of Tax
Nonpension postretirement benefits	<u>\$ (580,789)</u>
December 31, 2019	Net of Tax
Nonpension postretirement benefits	<u>\$ (710,138)</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>2021</u>	<u>2020</u>	<u>2019</u>
Accumulated other comprehensive income (loss) at January 1	\$ (580,789)	\$ (710,138)	\$ (198,585)
Actuarial gains (losses)	262,337	110,379	(489,837)
Amortization of prior service (credit) included in salaries and employee benefits	(21,716)	(21,716)	(21,716)
Amortization of actuarial loss included in salaries and employee benefits	24,452	40,686	-
Other comprehensive income (loss), net of tax	<u>265,073</u>	<u>129,349</u>	<u>(511,553)</u>
Accumulated other comprehensive income at December 31	<u>\$ (315,716)</u>	<u>\$ (580,789)</u>	<u>\$ (710,138)</u>

NOTE 12 — INCOME TAXES:

The provision for income taxes follows for the years ended December 31:

	2021	2020	2019
Current:			
Federal	\$ 110,844	\$ 143,242	\$ 145,843
Deferred:			
Federal	512,384	(3,439)	(145,610)
Total provision for income taxes	<u>\$ 623,228</u>	<u>\$ 139,803</u>	<u>\$ 233</u>

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:

	2021	2020	2019
Federal tax at statutory rate	\$ 9,689,521	\$ 7,228,055	\$ 6,106,912
Effect of nontaxable FLCA subsidiary	(8,243,383)	(6,097,009)	(5,148,411)
Patronage distributions	(826,560)	(1,018,500)	(945,000)
Other	3,650	27,257	(13,268)
Provision for income taxes	<u>\$ 623,228</u>	<u>\$ 139,803</u>	<u>\$ 233</u>

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

	2021	2020	2019
<u>Deferred Tax Assets</u>			
Allowance for loan losses	\$ 199,554	\$ 686,891	\$ 649,125
Postretirement benefits, other	-	25,047	59,374
Gross deferred tax assets	<u>\$ 199,554</u>	<u>\$ 711,938</u>	<u>\$ 708,499</u>

The calculation of tax assets and liabilities involves various management estimates and assumptions as to the future taxable earnings. At December 31, 2021, non-patronage income is expected to be 18.6 percent of total taxable income (before patronage) and patronage income retained is expected to be retained by the Association on a tax basis. The expected future tax rates are based upon enacted tax laws.

Upon formation of the ACA, the PCA transferred certain loans and the related allowance for loan losses to the FLCA as permitted by the Act. As a result, deferred taxes attributable to the allowance for loan losses subject to the transfer did not change.

The ACA is required to maintain an investment in the Bank of 2 percent of the average direct note. This investment can be held by both the PCA and FLCA. A deferred tax liability is established for the PCA for any excess investment in the Bank over that allocated to the 2 percent investment requirement. Upon formation of the ACA, additional amounts of excess investment previously held by the PCA were included in the calculation of the 2 percent requirement of the ACA. The PCA did not hold any excess investment as of December 31, 2021, 2020 and 2019, respectively.

The Association expects to fully utilize its gross deferred tax assets and has no deferred tax valuation allowance. The Association will continue to evaluate the realizability of the deferred tax assets.

NOTE 13 — 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 “makeup” 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 pretax deferrals of compensation above and beyond any deferrals into the qualified 401(k) plan.
- Discretionary Contributions – to allow participating employers to make a discretionary contribution to an eligible employee’s account in the plan, and to designate a vesting schedule.

The Association elected to participate in the district’s nonqualified defined contribution 401(k) plan, although participation from qualifying employees was limited. Contributions of \$132,302, \$4,827 and \$57,044 were made to this plan for the years ended December 31, 2021, 2020 and 2019. There were no payments made from the supplemental 401(k) plan to active employees during 2021, 2020 and 2019.

The DB plan is noncontributory 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, 2021.

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

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- 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, 2021, 2020 and 2019:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Funded status of plan	70.5%	62.6%	66.2%
Association's contribution	\$ 632,970	\$ 238,309	\$ 420,239
Percentage of Association's contribution to total contributions	4.2%	4.0%	5.2%

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 72.0 percent, 64.3 percent and 68.0 percent at December 31, 2021, 2020 and 2019, respectively.

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

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

Retiree Welfare Benefit Plans

Disclosure Information Related to Retirement Benefits	2021	2020	2019
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	\$ 4,721,546	\$ 4,751,534	\$ 4,154,101
Service cost	59,146	57,210	54,963
Interest cost	130,116	161,252	193,316
Plan participants' contributions	33,971	28,752	35,431
Actuarial (gain) loss	(262,337)	(110,379)	489,837
Benefits paid	(162,336)	(166,823)	(176,114)
Accumulated postretirement benefit obligation, end of year	\$ 4,520,106	\$ 4,721,546	\$ 4,751,534
Change in Plan Assets			
Company contributions	\$ 128,365	\$ 138,071	\$ 140,683
Plan participants' contributions	33,971	28,752	35,431
Benefits paid	(162,336)	(166,823)	(176,114)
Plan assets at fair value, end of year	\$ -	\$ -	\$ -
Funded status of the plan	\$ (4,520,106)	\$ (4,721,546)	\$ (4,751,534)
Amounts Recognized on the Balance Sheets			
Other liabilities	\$ (4,520,106)	\$ (4,721,546)	\$ (4,751,534)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss	\$ 400,626	\$ 687,415	\$ 838,480
Prior service (credit)	(84,910)	(106,626)	(128,342)
Total	\$ 315,716	\$ 580,789	\$ 710,138
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	12/31/2021	12/31/2020	12/31/2019
Discount rate	3.15%	2.80%	3.45%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	6.80% / 6.00%	6.90% / 6.40%	6.90% / 6.40%
Health care cost trend rate assumed for next year - Rx	6.80%	6.90%	6.90%
Ultimate health care cost trend rate	4.50%	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2030	2029	2028

Total Cost	2021	2020	2019
Service cost	\$ 45,320	\$ 57,210	\$ 54,963
Interest cost	139,834	161,252	193,316
Amortization of:			
Unrecognized prior service cost	(21,716)	(21,716)	(21,716)
Unrecognized net loss	-	40,686	-
Net postretirement benefit cost	\$ 163,438	\$ 237,432	\$ 226,563
Other Changes in Plan Assets and Projected Benefit Obligation			
Recognized in Other Comprehensive Income			
Net actuarial (gain) loss	\$ (262,337)	\$ (110,379)	\$ 489,837
Amortization of net actuarial gain	(24,452)	(40,686)	-
Amortization of prior service cost	21,716	21,716	21,716
Total recognized in other comprehensive (income) loss	\$ (265,073)	\$ (129,349)	\$ 511,553
AOCI Amounts Expected to be Amortized Into Expense in 2022			
Unrecognized prior service cost	\$ (21,716)	\$ (21,716)	\$ (21,716)
Unrecognized net loss	-	24,452	40,686
Total	\$ (21,716)	\$ 2,736	\$ 18,970
Weighted-Average Assumptions Used to Determine Benefit Cost			
Measurement date	12/31/2020	12/31/2019	12/31/2018
Discount rate	2.80%	3.45%	4.75%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	6.90% / 6.40%	6.90% / 6.40%	7.30% / 6.90%
Health care cost trend rate assumed for next year - Rx	6.90%	6.90%	6.90%
Ultimate health care cost trend rate	4.50%	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2029	2028	2027
Expected Future Cash Flows			
Expected Benefit Payments (net of employee contributions)			
Fiscal 2022	\$ 163,110	\$ 160,652	\$ 181,781
Fiscal 2023	181,712	179,731	201,091
Fiscal 2024	185,438	186,063	206,427
Fiscal 2025-2029	193,426	193,769	1,155,688
Fiscal 2026-2030	193,672	1,076,397	-
Fiscal 2027-2031	1,103,525	-	-
Expected Contributions			
Fiscal 2022	\$ 163,110	\$ 160,652	\$ 181,781

NOTE 14 — RELATED PARTY TRANSACTIONS:

Directors of the Association, except for any director-appointed 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, 2021, 2020 and 2019, for the Association amounted to \$34,083,701, \$38,081,754 and \$39,830,894. During 2021, 2020 and 2019, \$34,776,324, \$44,316,710 and \$51,625,687 of new loans were made, and repayments totaled \$36,773,120, \$40,414,911 and \$42,868,968, respectively. In the opinion of management, no such loans outstanding at December 31, 2021, 2020 and 2019 involved more than a normal risk of collectibility.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems and accounting services and allocations of expenses incurred by the Bank and passed through to the Associations, such as FCSIC expenses. The Bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled \$1,794,222, \$1,109,619 and \$794,292 in 2021, 2020 and 2019, respectively.

The Association received patronage payments from the Bank totaling \$13,972,755, \$12,327,234 and \$11,148,559 during 2021, 2020 and 2019, respectively.

NOTE 15 — FAIR VALUE MEASUREMENTS:

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

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

December 31, 2021	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
Assets:			
Loans	\$ -	\$ -	\$ 435,594
Other property owned	-	-	-
 December 31, 2020	 Fair Value Measurement Using		
	Level 1	Level 2	Level 3
Assets:			
Loans	\$ -	\$ -	\$ 100,575
Other property owned	-	-	-
 December 31, 2019	 Fair Value Measurement Using		
	Level 1	Level 2	Level 3
Assets:			
Loans	\$ -	\$ -	\$ 37,206
Other property owned	-	-	3,101,394

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, 2021					
Fair Value Measurement Using					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	\$ 49,663	\$ 49,663	\$ -	\$ -	\$ 49,663
Investments	734,626	-	-	756,535	756,535
Net loans	2,011,783,083	-	-	1,996,203,517	1,996,203,517
Total Assets	<u>\$ 2,012,567,372</u>	<u>\$ 49,663</u>	<u>\$ -</u>	<u>\$ 1,996,960,052</u>	<u>\$ 1,997,009,715</u>
Liabilities:					
Note payable to Bank	<u>\$ 1,804,831,571</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,790,705,972</u>	<u>\$ 1,790,705,972</u>
December 31, 2020					
Fair Value Measurement Using					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	\$ 2,373,598	\$ 2,373,598	\$ -	\$ -	\$ 2,373,598
Investments	1,054,100	-	-	1,088,101	1,088,101
Net loans	1,557,334,114	-	-	1,579,149,486	1,579,149,486
Total Assets	<u>\$ 1,560,761,812</u>	<u>\$ 2,373,598</u>	<u>\$ -</u>	<u>\$ 1,580,237,587</u>	<u>\$ 1,582,611,185</u>
Liabilities:					
Note payable to Bank	<u>\$ 1,364,703,280</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,383,711,395</u>	<u>\$ 1,383,711,395</u>
December 31, 2019					
Fair Value Measurement Using					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	\$ 7,188,050	\$ 7,188,050	\$ -	\$ -	\$ 7,188,050
Investments	2,660,691	-	-	2,654,448	2,654,448
Net loans	1,309,243,619	-	-	1,313,871,891	1,313,871,891
Total Assets	<u>\$ 1,319,092,360</u>	<u>\$ 7,188,050</u>	<u>\$ -</u>	<u>\$ 1,316,526,339</u>	<u>\$ 1,323,714,389</u>
Liabilities:					
Note payable to Bank	<u>\$ 1,140,484,754</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,144,534,916</u>	<u>\$ 1,144,534,916</u>

About nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System associations 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.

	<u>Valuation Technique(s)</u>	<u>Unobservable Input</u>	<u>Range of</u>
Investments held to maturity	Discounted cash flow	Prepayment rates	2.3% - 38.0%
	<u>Valuation Technique(s)</u>	<u>Input</u>	
Cash	Carrying value	Par/principal and appropriate interest yield	
Investments held to maturity	Discounted cash flow	Prepayment rates, Probability of default, Loss severity	
Loans	Discounted cash flow	Prepayment forecasts, Probability of default, Loss severity	
Note payable to Bank	Discounted cash flow	Benchmark yield curve, Derived yield Own credit risk	
Other interest bearing liabilities	Carrying value	Par/principal and appropriate interest yield	

Valuation Techniques

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

Investments

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

Assets Held in Nonqualified Benefits Trusts

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

Standby Letters of Credit

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

Loans Evaluated for Impairment

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

Other Property Owned

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

NOTE 16 — 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, 2021, \$311,338,981 of commitments were outstanding.

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

NOTE 17 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

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

	2021				
	First	Second	Third	Fourth	Total
Net interest income	\$ 11,193	\$ 11,844	\$ 12,152	\$ 12,524	\$ 47,713
Reversal of loan losses	485	2,180	767	3	3,435
Noninterest income (expense), net	(1,987)	(318)	(1,244)	(2,082)	(5,631)
Net income	\$ 9,691	\$ 13,706	\$ 11,675	\$ 10,445	\$ 45,517

	2020				
	First	Second	Third	Fourth	Total
Net interest income	\$ 9,507	\$ 9,887	\$ 10,278	\$ 10,696	\$ 40,368
(Provision for) reversal of loan losses	(995)	(604)	(317)	359	(1,557)
Noninterest income (expense), net	(1,141)	(695)	(2,333)	(362)	(4,531)
Net income	\$ 7,371	\$ 8,588	\$ 7,628	\$ 10,693	\$ 34,280

	2019				
	First	Second	Third	Fourth	Total
Net interest income	\$ 9,014	\$ 9,152	\$ 9,396	\$ 9,373	\$ 36,935
(Provision for) reversal of loan losses	(320)	60	(295)	(1,580)	(2,135)
Noninterest income (expense), net	(1,779)	(1,586)	(1,860)	(495)	(5,720)
Net income	\$ 6,915	\$ 7,626	\$ 7,241	\$ 7,298	\$ 29,080

NOTE 18 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through March 11, 2022, 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

Texas Farm Credit Services (the Association) serves its 100-county territory through its main administrative and lending office at 545 South Highway 77, Robstown, TX 78380. Additionally, there are 20 branch lending offices, three administrative offices, three crop insurance offices and two satellite offices located throughout the territory. The Association owns the Bandera, Beaumont, Bonham, Brenham, Fairfield, Nacogdoches, Pleasanton, Raymondville Crop Insurance, Raymondville Lending, Robstown Administrative, Robstown Branch, San Antonio, Sulphur Springs, Taft Crop Insurance, The Woodlands, Tyler Administrative, Tyler Branch, Uvalde and Weslaco offices, free of debt. The Association operates leased satellite offices in Dallas and McAllen. The Association leases offices for its lending operations in Rockwall, Laredo and Prosper.

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 11 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 10, “Note Payable to the Bank,” Note 13, “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 16 to the consolidated financial statements, “Summary of Significant Accounting Policies” and “Commitments and Contingencies,” respectively, included in this annual report.

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

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

The annual and quarterly stockholder reports of the Farm Credit Bank of Texas (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, TX 78720-2590 or calling (512) 465-1881. Copies of the Bank annual and quarterly stockholder reports can also be requested by emailing fcb@farmcreditbank.com. The annual and quarterly stockholder reports are also available on its website at www.farmcreditbank.com.

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter end and can be obtained by writing to Texas Farm Credit Services, 545 South Hwy. 77, Robstown, TX 78380 or calling (361) 387-8563. Copies of the Association's quarterly stockholder reports can also be requested by emailing kibrom@texasfcs.com. The Association's annual stockholder report is available on its website at www.texasfcs.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, 2021, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Consolidated Financial Data," included in this annual report to stockholders.

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

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

DIRECTORS AND SENIOR OFFICERS

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

NAME	POSITION	DATE ELECTED/ EMPLOYED	TERM EXPIRES
Thomas Barker	Director	2012	2024
Jerry Chappell	Director	2013	2022
James Dawley	Director	2003	2023
Marion Vines Durand	Director-Appointed Stockholder	2012	2023
Roxann Garvin	Director	2019	2023
David Henneke	Director-Appointed Non-Stockholder	2005	2023
Bobby Hobson	Director-Vice Chairman	2008	2022
John Prukop	Director-Chairman	1990	2023
Mark Reus	Director	2018	2022
Gregory T. Richbourg	Director-Appointed Non-Stockholder	2010	2023
Christopher Sparks	Director-Resigned	2020	2024
Mark Miller	Chief Executive Officer	1989	---
Keith A. Ibrom	Chief Financial Officer	1999	---
John O'Brien, IV	Chief Credit Officer	2000	---
John Parker	Chief Information Officer	2003	---
Jolene Curtis	Chief Operations Officer	2004	---
Lane Pepper	Chief Risk Officer	2004	---
Joe Valladares	Chief Strategy & Innovation Officer	2005	---
Lori V. Graham	General Counsel	2014	---

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

Thomas Barker resides in Winona, Texas, and has been the manager of Seven P Ranch, a 1,750-acre registered Simmental operation located near Tyler, Texas, for the past 11 years.

Jerry Chappell resides in Lyford, Texas, and is a partner in Chappell Farms, a family partnership. They primarily farm cotton and grain. Mr. Chappell serves on the Willacy County Farm Bureau, which is a nonprofit organization dedicated to promoting, protecting and representing the interests of U.S. farmers. He also serves on the Texas Boll Weevil Eradication Lower Rio Grande Valley Steering Committee, which is a liaison between cotton producers of the Lower Rio Grande Valley and the Boll Weevil Eradication Foundation; is a director for the Rio Grande Valley CCA, which promotes conservation of coastal sport fisheries; is a member of the Rio Grande Valley IPM Steering Committee, which promotes the integrated pest management to farmers of the Rio Grande Valley;

and is a director for the Appraisal Review Board, which is a decision-making body that issues determinations of statutorily authorized protests and challenges brought by property owners and taxing units.

James Dawley a resident of the Mexia, Texas area, was born and raised on a farm/ranch in Honest Ridge, Texas, in Limestone County. He currently runs a cow-calf operation in Limestone and Freestone counties and owns and operates Sheffield Farm and Ranch Supply in Mexia, Texas. Mr. Dawley is an officer for the Limestone County Farm Bureau, a support organization for agriculture; a director for the Farm Service Committee for Limestone and Freestone counties, a government agency that serves farmers, ranchers and agricultural partners with agricultural programs; as well as the secretary/treasurer of the Limestone County Young Farmers, which promotes agriculture in the area.

Marion Vines Durand is a resident of Lufkin, Texas, where she serves as an officer and director of Lufkin Business Park II, Inc. Mrs. Durand is a retired certified public accountant and is active in several other agricultural sectors, including timber, land management, cattle ranching and farming. Mrs. Durand also serves as a manager of the Dan M Vines Limited Partnership and DMV Interest, LLC.

Roxann Garvin, is a resident of Winnsboro, Texas, where she manages her family's operation. The family farm consists of Roxann, husband Mike, and son Chance working a cow-calf operation, four breeder farms with Pilgrims and 800 acres for grazing and hay production.

David Henneke is a retired investment advisor with more than 20 years' banking experience from Alice, Texas. Mr. Henneke has served on the board of directors since 2005.

Bobby Hobson is a resident of Nacogdoches County. He is the owner/operator of a 17-house broiler farm with a 350,000-bird capacity. He also runs a cow-calf operation on 1,000 acres of owned and leased land as well as operates a custom hay baling business with his brother, Larry Hobson. Mr. Hobson is president of the Douglass ISD school board and serves as chairman on the Nacogdoches County Soil and Water Conservation Board, which manages the quality of water and soil in Nacogdoches County.

John Prukop lives in Nueces County and has been farming since 1974 in Jim Wells, Kleberg and Nueces counties and farms vegetable and melons in Hidalgo County, Texas. Mr. Prukop serves as chairman of the Kleberg-Kenedy Soil and Water Conservation District, which manages the quality of water and soil in Kleberg and Kenedy Counties; and is a director on the National Watermelon Promotion Board, whose purpose is to maintain and expand existing markets and develop new markets for fresh watermelon. He is an adviser to the South Texas Property Rights Association, which protects the rights of property owners in South Texas.

Mark Reus lives in Hondo, Texas, where he serves as the managing partner for Reus Grain, LP, a family operation. Reus Grain, LP, cleans and processes grains for bagging and bulk delivering to wholesale and retail customers for deer and wildlife feeding.

Gregory T. Richbourg is an equal shareholder in the public accounting firm of Gollob Morgan Peddy PC in Tyler, Texas. Mr. Richbourg previously served as vice president of Richbourg & Associates, PC, CPA's from 1998 to its June 2014 merger with Gollob Morgan Peddy PC. Mr. Richbourg is a certified public accountant and a member of the American Institute and Texas Society of Certified Public Accountants. He currently serves on the boards of directors for several local nonprofit organizations, including the Tyler Catholic School Foundation (treasurer), as well as Tyler Friends of the Poor (president) and the East Texas Area Council-Boy Scouts of America (treasurer).

Christopher Sparks is a third-generation farmer residing in Harlingen, Texas. He is a partner of CJ Farms in Cameron County. He farms cotton, grain sorghum, corn and sesame. Sparks also owns and operates Briggs Coleman Seed Co., which is an independent seed distributor for Pioneer. He currently serves as chairman on the Cameron County Farm Service Agency Board, which is a government agency that serves farmers, ranchers and agricultural partners with agricultural programs.

Mark A. Miller has served as chief executive officer since January 1, 2013¹. Prior to this appointment, Mr. Miller served as executive vice president and chief credit officer. He has been with the organization since March 1989 when he accepted a position as loan officer and since that time has served as branch manager and chief operations officer. Mr. Miller also serves on the board of FCCS.

Keith A. Ibrom has served as chief financial officer since 1999². Mr. Ibrom is a certified public accountant. Mr. Ibrom is also a general partner of a family cattle operation in DeWitt County, Texas, and he and his wife also own real estate rental properties as well as a pet boarding and day care business.

¹ Mr. Miller was chief executive officer of Texas AgFinance from January 1, 2013 to January 1, 2014 when it merged to become Texas Farm Credit Services.

² Mr. Ibrom served as chief financial officer of Texas AgFinance from July 6, 1999 to January 1, 2014 when it merged to become Texas Farm Credit Services.

John O'Brien, IV has served as chief credit officer since January 1, 2013³. Mr. O'Brien began with Texas AgFinance in 2000, where he served as a loan officer, branch manager, YBS portfolio manager, crop insurance division manager and manager of association participation loans. Mr. O'Brien is also part owner in a cow-calf operation in Refugio and Bee counties.

John Parker has served as chief information officer since February 7, 2018. Prior to this appointment, Mr. Parker served as senior vice president IT systems. He has been with the organization since May 2003, when he accepted a position as loan officer and, since that time, Mr. Parker has served as assistant vice president of lending, IT systems analyst, and vice president IT systems. In addition to his current role with the organization, Mr. Parker also serves as pastor to New Beginning Fellowship, a church located in Sinton, Texas.

Jolene Curtis assumed the role of chief operating officer on January 1, 2016. Ms. Curtis has been with Texas Farm Credit Services since 2004, during which time she served as a loan officer trainee, loan officer and vice president of operations. In the vice president of operations role, she oversaw the rural home loan program as well as marketing and crop insurance functions. Mrs. Curtis serves as an executive board member and treasurer for the Brenham State Supported Living Center Volunteer Services Council. She also serves on the Board of Directors and Executive Committee for the Washington County Chamber of Commerce. Along with her husband, she owns Curtis Wildlife and Agricultural Services, LLC, which provides wildlife and agricultural consulting services. Ms. Curtis is also a partner in Tandem Partners, LLC, a company that owns rental real estate properties.

Lane Pepper assumed the role of chief risk officer in April 2017. Prior to this appointment, Mr. Pepper served as senior vice president commercial credit. He has been with the organization since 2004, when he accepted a position as loan officer, and since that time, he has served in various leadership roles within both the credit and finance departments. Mr. Pepper has earned the Chartered Financial Analyst designation. Mr. Pepper serves as treasurer of the Annapolis Christian Academy board of trustees.

Joe Valladares has served as chief strategy and innovation officer since January 2021. Prior to this appointment, Mr. Valladares served as chief audit officer and internal audit director since January 2014. He also served as chief financial officer at another association since 2011, where he provided leadership in finance, accounting, human resources, operations and information technology.

Lori V. Graham assumed the role of general counsel on April 21, 2014. Prior to this, Ms. Graham practiced law specializing in insurance defense, real estate and oil and gas litigation. Ms. Graham serves as the secretary of the Washington County Child Welfare Board, a nonprofit organization created to sponsor public awareness of child abuse prevention and provide support to local CPS and foster families.

COMPENSATION OF DIRECTORS

Elected stockholder directors and appointed stockholder directors were compensated for their service to the Association in the form of an honorarium at the rate of \$650 per day for director meetings and committee meetings, and they were reimbursed for certain expenses incurred while representing the Association in an official capacity. Appointed non-stockholder directors were compensated for their service to the Association in the form of an honorarium at the rate of \$750 per day for director meetings and committee meetings, and they were reimbursed for certain expenses incurred while representing the Association in an official capacity. In addition to the honorarium, all directors receive an annual retainer. The chairman of the board receives a \$18,000 annual retainer, the vice-chairman of the board receives an \$16,000 annual retainer, and the chairman of the audit committee receives a \$14,000 annual retainer. The remaining directors receive a \$13,000 per director annual retainer, and all directors serving on the audit committee receive an additional \$4,000 annual retainer. Directors are compensated for all conference calls at a rate of \$150 per call. Mileage for attending official meetings during 2021 was paid at the IRS-approved rate of 56.0 cents per mile. A copy of the travel policy is available to stockholders of the Association upon request.

³ Mr. O'Brien was chief credit officer of Texas AgFinance from January 1, 2013 to January 1, 2014 when it merged to become Texas Farm Credit Services.

Director	Number of Meetings Served		2021 Compensation
	Board Meetings	Audit, Compensation and Other Special Meetings	
Thomas Barker	6	3	\$ 25,350
Jerry Chappell	5	8	31,575
James R. Dawley	6	8	35,650
Marion Vines Durand	6	8	30,800
Roxann Garvin	6	8	30,300
David Henneke	6	7	30,200
Bobby Hobson	6	3	35,800
John Prukop	5	8	37,925
Mark Reus	6	7	34,050
Gregory T. Richbourg	6	8	35,850
Christopher Sparks	4	2	27,483
			<u>\$ 354,983</u>

The Association's entire board of directors serves on the compensation committee. Eight directors serve on the audit committee, and five directors serve on the governance committee. The Association held a total of six board of directors meetings, five audit committee meetings, three compensation committee meetings and three conference call governance committee meetings during 2021. This compares to seven board of directors meetings, five audit committee meetings, three compensation committee meetings and two conference call governance committee meetings during 2020 and seven board of directors meetings, four audit committee meetings, three compensation committee meetings and two conference call governance committee meetings during 2019.

The aggregate compensation paid to directors in 2021, 2020 and 2019 was \$354,983, \$262,775 and \$289,475, respectively. The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was \$59,714, \$48,961 and \$50,769 in 2021, 2020 and 2019, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Senior Officers

The board of directors has established a compensation committee consisting of at least three board members, each of whom shall be free from any relationship that would interfere with the exercise of his or her independent judgment as a committee member as determined by the board of directors. The primary function of the compensation committee is to assist the board in fulfilling its responsibilities with respect to matters involving the compensation of the board and the chief executive officer, to review the compensation policies and plans for senior officers and employees and to approve the overall compensation program for senior officers. A copy of the compensation committee charter is available to the public on the Association's website at www.texasfcs.com.

The compensation committee approves the Association's incentive plan annually. The incentive plan is based on the Association meeting certain financial objectives established in the Association's annual Business Plan submitted to the Farm Credit Administration and approved by the board. The incentive plan is based on the Association's fiscal year of operations. The incentive plan requires that the Association meet certain net earnings objectives to ensure adequate capital levels to support predetermined board objectives. The incentive plan also requires that the Association meet pre-established interest rate spread objectives and credit quality objectives. The incentive plan is structured so that an incentive pool of dollars is paid if the incentive plan objectives are met. A staggered incentive pool of dollars is available to employees if objectives are less than fully achieved. There were no material amendments to the incentive plan for 2021.

All employees are eligible to participate in the Association's incentive plan if they were employed on or before July 1 of the fiscal year of that year's incentive plan. Employees must receive a satisfactory performance evaluation to receive incentive payments from that year's incentive plan. If an employee does not receive a satisfactory performance evaluation, their incentive is calculated as if it was to be paid and withheld from distribution. It does not go back into the incentive pool of dollars to be distributed to other participants. Employees with less than five years of service are subject to a vesting schedule for incentive payments. The vesting schedule is based on five years of service. Employees receive a 20 percent vestment percentage for each year of service. Employee payment of prior year's vested incentives is not dependent on the employee receiving a satisfactory performance evaluation for the

current year's incentive plan. Undistributed unvested incentives are forfeited if an employee voluntarily or involuntarily terminates employment.

Chief Executive Officer (CEO) Compensation Policy

The CEO's salary is established by the board of directors at the beginning of each fiscal year. The CEO participates in the Association's incentive plan. The CEO bonus is dependent on the Association meeting the financial objectives approved by the compensation committee.

Summary Compensation Table

The following table summarizes the compensation paid to the CEO and all senior officers of the Association during 2021, 2020 and 2019. This may include other non-senior officers if their total compensation is within the top five highest-paid employees. Amounts reflected in the table are presented in the year the compensation was earned.

Chief Executive Officer	Year	Salary (b)	Bonus (c)	Total
Mark Miller	2021	\$ 480,000	\$ 265,072	\$ 745,072
Mark Miller	2020	\$ 450,000	\$ 190,989	\$ 640,989
Mark Miller	2019	\$ 420,000	\$ 157,548	\$ 577,548

Aggregate Number of Senior Officers & other highly compensated employees (a)	Year	Salary (b)	Bonus (c)	Total
5 Officers	2021	\$ 1,050,000	\$ 557,203	\$ 1,607,203
5 Officers	2020	\$ 998,350	\$ 418,721	\$ 1,417,071
5 Officers	2019	\$ 947,000	\$ 355,234	\$ 1,302,234

(a) Aggregate number of senior officers/highly compensated individuals, excluding CEO.

(b) Gross salary, including retention plan compensation for certain senior officers.

(c) Bonuses paid within the first 30 days of the subsequent calendar year.

Pension Benefits Table

Neither the CEO nor any of the highly compensated employees disclosed above in aggregate participate in the Farm Credit Bank of Texas Pension Plan (the "Pension Plan"), which is a qualified defined benefit retirement plan.

Employees assigned Association vehicles are given the option to drive a company-owned vehicle or receive a compatible auto allowance to purchase a personal vehicle. Employees opting for the auto allowance are liable for all payroll taxes. The auto allowance is exempt from 401(k) matching and is not included in any incentive calculations. Employees who drive company-owned vehicles have personal miles reported to the IRS as fringe benefits that are considered additional taxable income to the employee. Employees who use their personal automobiles for business purposes were reimbursed during 2021 at the IRS-approved rate of 56.0 cents per mile

Neither the CEO nor any other senior officer received noncash compensation exceeding \$5,000 in 2021, 2020 and 2019.

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 14 to the consolidated financial statements, "Related Party Transactions," included in this annual report.

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

The Association has no senior officers or directors with any involvement in certain legal proceedings as described in FCA §620.6(f).

RELATIONSHIP WITH INDEPENDENT AUDITOR

No change in auditors has taken place since the last annual report to stockholders, and no disagreements with auditors has occurred that the Association is required to report to the Farm Credit Administration under part 621 of the FCA regulations governing this disclosure. The fees paid in 2021 for professional audit services rendered for the Association by the independent auditors, PricewaterhouseCoopers LLP, were \$155,470. The fees paid in 2021 for professional tax services rendered for the Association by the independent auditors, PricewaterhouseCoopers LLP, were \$11,400. No other services were provided by the independent auditors, PricewaterhouseCoopers LLP

RELATIONSHIP WITH UNINCORPORATED BUSINESS ENTITIES

The Association has no business relationships with any unincorporated business entity (UBE) as of December 31, 2021.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 11, 2022, 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.

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

The Association has established a policy related to providing credit and services to young, beginning and small (YBS) farmers and ranchers. "Young" farmers and ranchers are defined as producers whose age is 35 years or younger as of the loan's transaction date. "Beginning" farmers and ranchers are producers who have 10 years or less of farming or ranching experience as of the loan transaction date. A producer is considered a "small" farmer and rancher if they normally generate \$250,000 or less in annual gross sales of agricultural products.

The Association's YBS definitions differ slightly from those used by the United States Department of Agriculture (USDA). USDA defines a "young" farmer and rancher as a producer under the age of 35. USDA defines a "beginning" farmer and rancher as a producer with less than 10 years of farming or ranching experience.

The Association created a YBS mission statement to help guide its efforts. The mission statement is as follows:

Texas Farm Credit Services is committed to attracting, growing and retaining the YBS volume in its territory. The aging demographic in its service area has made YBS lending a top priority for maintaining the long-term viability of the Association.

The Association is committed to cooperating with all farm credit institutions, state and federal agencies, such as the USDA and Small Business Administration, commercial lending institutions and all other guarantors or cosigners to benefit young, beginning and small producers. It has committed staff and financial resources to the development and execution of its YBS program.

Each year, the Association establishes objectives related to its YBS program. The objectives are approved by the board of directors and are included in the Association's strategic plan. The following table summarizes the Association's 2021 objectives compared to actual results.

YBS Program - New Loan Volume	2021 Goal	2021 Result
Young farmers and ranchers	\$ 80,000,000	\$ 143,589,000
Beginning farmers and ranchers	\$ 300,000,000	\$ 628,429,000
Small farmers and ranchers	\$ 300,000,000	\$ 688,031,000

YBS Program - Percentage of New Loan Volume	2021 Goal	2021 Result
Young farmers and ranchers	9.0%	12.4%
Beginning farmers and ranchers	33.0%	54.4%
Small farmers and ranchers	33.0%	59.5%

YBS Program - Number of New Loans	2021 Goal	2021 Result
Young farmers and ranchers	200	277
Beginning farmers and ranchers	650	1,004
Small farmers and ranchers	775	1,158

The board of directors remains committed to the YBS program. It has committed staff and financial resources to the development and execution of its YBS program. The 2022 objectives that were approved by the board of directors and included in the Association's strategic plan are summarized in the following table.

YBS Program - Number of Loans	2022 Goal
Young farmers and ranchers	780
Beginning farmers and ranchers	2,800
Small farmers and ranchers	3,425
	Total
YBS Program - Percentage of Total Number of Loans	Loans
Young farmers and ranchers	17.1%
Beginning farmers and ranchers	59.3%
Small farmers and ranchers	71.0%

YBS Program - Combined Segments	Total Loans
% of Total Number of Loans	75.2%
% of Total Volume of Loans	66.2%

The following tables represent YBS demographics for the State of Texas, the Association's territory and the Association. The YBS demographics for the State of Texas and the Association's territory are based on the USDA-NASS 2017 Census. The Association's YBS data is based on 2021 data.

YBS Program - State of Texas	Total	Number	Percentage of Total
Agricultural producers in Texas	248,416		
Young farmers and ranchers in Texas		28,187	11.3%
Beginning farmers and ranchers in Texas		118,999	47.9%
Small farmers and ranchers in Texas		238,405	96.0%

YBS Program - Association's Territory	Total	Number	Percentage of Total
Agricultural producers in Association's territory	124,531		
Young farmers and ranchers in territory		11,936	9.6%
Beginning farmers and ranchers in territory		60,200	48.3%
Small farmers and ranchers in territory		121,515	97.6%

YBS Program - Association	Total	Number	Percentage of Total
Agricultural producers' loans in the Association	4,917		
Young farmers and ranchers loans in the Association		835	17.0%
Beginning farmers and ranchers loans in the Association		2,949	60.0%
Small farmers and ranchers loans in the Association		3,606	73.3%



**SERVING 100
TEXAS COUNTIES
AND DELIVERING
EVEN GREATER VALUE
TO OUR CUSTOMERS**

AGRICULTURE LENDING

- Cow-Calf, Stocker and Feedlot Operations
- Crop Operations
- Planting and Harvesting Expenses
- Timber Operations
- Nurseries

RURAL REAL ESTATE FINANCING

- Farms and Ranches
- Recreational Property
- Hunting Ranches
- Property Improvements

INSURANCE SERVICES

- Crop Insurance
- Pasture, Rangeland and Forage (PRF) Insurance
- Annual Forage Insurance
- Life Insurance
- Livestock Risk Protection (LRP) Insurance
- Dairy Revenue Protection (DRP) Insurance

HOME MORTGAGES

Offering these home loan programs:

- Rural Home Program
- Rural Home Jumbo Program
- Conventional Program
- Conventional Jumbo Program
- Portfolio Loans
- FHA Program

Certain conditions may apply. Texas Farm Credit is an Equal Housing Lender. As prohibited by federal law, we do not engage in business practices that discriminate on the basis of race, color, religion, national origin, sex, marital status or age (provided you have the capacity to enter into a binding contract), because all or part of your income may be derived from a public assistance program, or because you have, in good faith, exercised any right under the Consumer Credit Protection Act. The federal agency that administers our compliance with these federal laws is the Federal Trade Commission, Equal Credit Opportunity, Washington, DC, 20580. The Texas Farm Credit National Mortgage Licensing System number is 962054. For more information visit www.texasfcs.com



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545 S. Highway 77
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exas Farm Credit offers loans and related services for recreational property, rural homes, farms and ranches, insurance services and hunting ranches.



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