



# 2023 ANNUAL REPORT

December 31, 2023

# Michael Vance

Anderson and Houston  
Counties, TX



Without inheriting any land or ranching assets, Michael Vance found it most important to grow his own ranching operations through strategic partnerships. These partnerships include capital partners as well as landowners that believe in regenerative grazing principles.

Southern Reds, LLC., Michael's current cattle partnership, has grown into a 1,200-head seedstock operation in North Central Texas. His operations span across 8,000 acres, managed with the help of his wife and three young sons. Southern Reds has plans to double its operation due to such increased demand from landowner partners who desire to see their own land investments be improved through true ecosystem management and regenerative grazing principles. Michael currently has customers in 13 states who use his genetics to improve their own regenerative farming and ranching operations.

"Texas Farm Credit has really allowed us the ability to get started with our current partnership," said Michael. "They believed in us, and they've grown with us throughout the partnership without question. Whenever we get an opportunity to lease a large track, we never doubt that we can pull that off — and that's given us the ability to really increase our rate of return in a way that is truly a good investment for us."



Scan for full article.

# James Kniestedt

Roosevelt, TX



James (Jim) Kniestedt, a retired military veteran and founder of the Kniestedt Foundation, is dedicated to making a positive impact on the lives of veterans. The foundation, initially inspired by Jim's passion for the outdoors and wildlife, has evolved into a comprehensive support system for veterans, particularly those with 50% or more disability. The Kniestedt Foundation organizes outdoor experiences, including hunting, fishing, and other activities, aiming to enhance the quality of life for veterans and their families.

Jim's connection with Texas Farm Credit has been instrumental in realizing his vision. With Texas Farm Credit's financial support, Jim has been able to acquire and develop ranch properties, creating revenue models that fund the foundation's initiatives. Texas Farm Credit's expertise in understanding outdoor revenue models, coupled with a long-term relationship, has facilitated Jim's ability to expand his projects, leaving a lasting positive impact on the land and its utilization.

Jim's foundation is not just about hunting; it's about providing life experiences and support for veterans dealing with PTSD and traumatic brain injuries. The foundation's commitment to special projects for special operation organizations and its focus on bringing families together highlight its holistic approach to veteran support. Jim's personal connection to the cause and the partnership with Texas Farm Credit demonstrate a shared commitment to making a meaningful difference in the lives of veterans and their families.



Scan for full article.

# Widget Farms

Lyford, TX



In the heart of sunny southern Texas, a fourth-generation family farm known as Widget Farms thrives, under the watchful care of Jarrett and Aly Lassig. The story of this farm, deeply rooted in their agricultural heritage, revolves around the cultivation of cotton, corn, and grain sorghum.

Early in their journey, the Lassigs yearned for a partner who not only grasped their vision but who would also be a financial ally willing to grow alongside them. In 2014, they partnered with Texas Farm Credit.

The Lassigs' story encompasses more than just crops. Alongside their bustling farming endeavors, they manage cattle, care for a small goat herd, and delight in fresh eggs from their laying hens. Their commitment to the future of agriculture is a recurring theme.

Their unwavering commitment to the future of farming shines through in their active participation in educational programs offered by Texas Farm Credit. These programs, like the Young Leaders Council, grant them precious insight into farming practices and connect them with fellow budding farmers, creating a vibrant sense of community within the agricultural landscape.

In November 2023, Jarrett and Aly took center stage at the Farm Credit Marketplace Reception, along with nearly 100 Farm Credit customers from across the nation, in Washington, D.C. This event showcases products that are produced by rural America to the thousands of attendees, including congressional members, administration officials, and influential agricultural stakeholders, emphasizing the importance of the Farm Credit mission.



“Partnering with Texas Farm Credit and being part of their Young Leadership Council for the last few years has been a great opportunity for us. We’ve met a lot of great people – both fellow farmers, others in the industry, and many of the Texas Farm Credit

management team. And we’ve also had some great experiences such as learning about the timber industry and visiting a sawmill, as well as seeing hatch green chilis being harvested. It’s all been a great experience for us and I would encourage anyone to take the opportunity to meet fellow agricultural and industry folks, as well as the team at Texas Farm Credit,” said Jarrett.

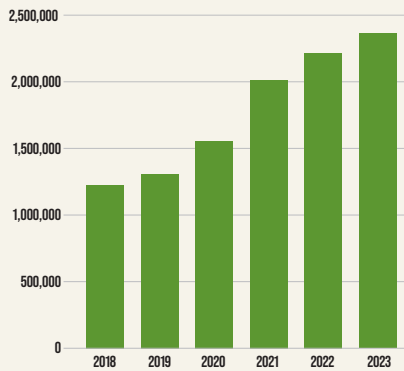
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## FINANCIAL HIGHLIGHTS

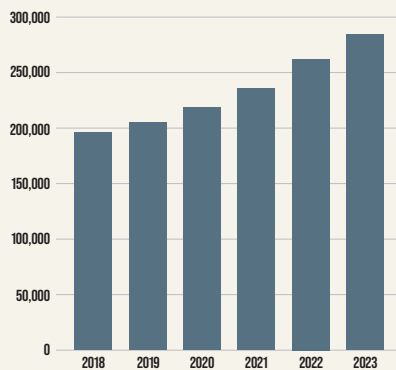
### End-of-Year Net Loans

(dollars in thousands)



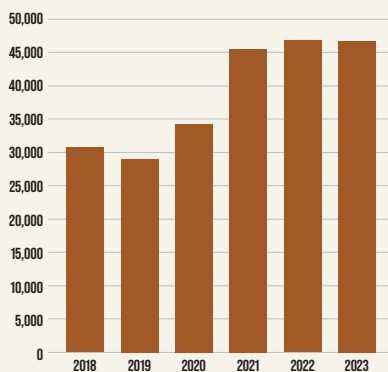
### Members' Equity

(dollars in thousands)

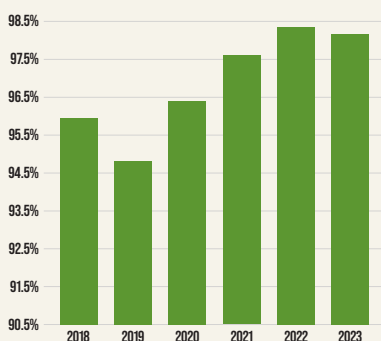


### Net Income

(dollars in thousands)



### End-of-Year Credit Quality



Dear Stockholders,

As we close the books on 2023, the Texas Farm Credit board and management sincerely thank you for your continued trust in choosing our association as your rural financing partner. Thanks to our loyal members and dedicated staff, the cooperative experienced much success in 2023, in spite of persistent inflation and elevated market interest rates that negatively impacted the agricultural sector and lending activity.

Financially, Texas Farm Credit ended 2023 on a strong note:

- **Net loan volume increased by 6.65% in 2023, with growth driven by increases in both real estate and production lending.**
- **2023 net income of \$46.8 million was the association's second highest ever — down just 0.07% from 2022. Patronage income from the Farm Credit Bank of Texas was down \$6.9 million but was largely offset by higher loan volume and the strong performance of the association's rural home loan and insurance services.**
- **Net interest income was a record \$60.2 million.**
- **Members' equity in the cooperative increased by 8.4% in 2023.**
- **Credit quality remained strong in 2023, ending the year with 98.1% of loans being acceptable classed.**

Additionally, increased earnings from our rural home loan and insurance services helped offset the impact of 2023's challenging interest rate environment and underscored the importance of the association's financial services and noninterest income sources.

When Texas Farm Credit does well, as it did in 2023, our customers benefit. That's the true measure of a cooperative's success. For the 25th consecutive year, we returned earnings to our customers in the form of cash patronage — a significant milestone in our co-op's history. Cash patronage distributions in 2023 totaled \$21.48 million and reduced our customers' net cost of borrowing. This amount included \$20.51 million in dividends based on the association's 2022 income and \$976 thousand in equities that were allocated in 2015 for future payment.

We also gauge success by our support for the rural communities we serve. Through our Passion Forward charitable giving program, in 2023 Texas Farm Credit contributed \$710 thousand and 891 service hours to more than 280 Passion Forward initiatives across the state. Among the new projects started in 2023 is a partnership with Texan by Nature to promote sustainable farming and land conservation. We also partnered with Texas FFA, Texas Brigades, and the Texas and Southwestern Cattle Raisers Association Roundup on youth-focused initiatives as part of our work to help develop the next generation of farm and ranch leaders.

Giving back doesn't start and stop with a calendar year; it's a deeply embedded part of our co-op culture that defines how we operate. For 2024, Texas Farm Credit team members have set a goal to increase volunteer efforts to 1,000 hours of service, and our board has committed to invest 1% to 2% of the association's annual budgeted net earnings in charitable giving.

Above all, our members remain the focus of Texas Farm Credit's strategic vision. We look forward to continuing to provide you with reliable credit and financial services to help you achieve your goals and dreams. Thank you for your loyal support last year, and best wishes for success in 2024.

Sincerely,

/s/ 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.

/s/Mark Miller

Mark Miller, Chief Executive Officer  
*March 8, 2024*

/s/Bobby Hobson

Bobby Hobson, Chairman, Board of Directors  
*March 8, 2024*

/s/Lane Pepper

Lane Pepper, Chief Financial & Risk Officer  
*March 8, 2024*

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Association’s chief executive officer and chief financial officer, or persons 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 persons 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, 2023. 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, 2023, 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, 2023. A review of the assessment performed was reported to the Association’s audit committee.

/s/ Mark Miller

Mark Miller, Chief Executive Officer  
*March 8, 2024*

/s/ Lane Pepper

Lane Pepper, Chief Financial & Risk Officer  
*March 8, 2024*

## REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of six members of the Texas Farm Credit Services' board of directors. In 2023, eight 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 2023.

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 the Texas Farm Credit Services audited consolidated financial statements for the year ended December 31, 2023 (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 the Texas Farm Credit Services' Annual Report to Stockholders for the year ended December 31, 2023.

### Audit Committee Members

Gregory T. Richbourg, Audit Committee Chairman  
Marion Durand, Audit Committee Vice Chairman  
Jerry Chappell, Audit Committee Member  
David Henneke, Audit Committee Member  
Bobby Hobson, Audit Committee Member  
John Prukop, Audit Committee Member

*March 8, 2024*



**TEXAS FARM CREDIT SERVICES**

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

	2023	2022	2021	2020	2019
<b>Balance Sheet Data</b>					
<u>Assets</u>					
Cash	\$ 23	\$ 26	\$ 50	\$ 2,374	\$ 7,188
Investments	301	425	735	1,054	2,661
Loans	2,365,070	2,218,378	2,014,919	1,563,260	1,314,083
Less: allowance for credit losses on loans	2,410	3,052	3,017	6,000	4,324
Net loans	2,362,660	2,215,326	2,011,902	1,557,260	1,309,759
Investment in and receivable from the Farm Credit Bank of Texas	45,047	39,082	32,285	25,480	23,197
Other property owned, net	-	-	-	-	3,101
Other assets	45,910	39,574	36,362	28,476	30,007
Total assets	<u>\$ 2,453,941</u>	<u>\$ 2,294,433</u>	<u>\$ 2,081,334</u>	<u>\$ 1,614,644</u>	<u>\$ 1,375,913</u>
<u>Liabilities</u>					
Obligations with maturities of one year or less	\$ 42,045	\$ 36,192	\$ 38,244	\$ 29,050	\$ 27,700
Obligations with maturities greater than one year	2,127,502	1,995,939	1,807,683	1,366,940	1,143,305
Total liabilities	2,169,547	2,032,131	1,845,927	1,395,990	1,171,005
<u>Members' Equity</u>					
Capital stock and participation certificates	4,624	4,580	4,365	4,175	3,791
Additional paid-in capital	47,596	47,596	47,596	47,596	47,596
Allocated retained earnings	52,244	53,220	54,628	57,255	56,437
Unallocated retained earnings	179,107	156,044	129,134	110,209	97,794
Accumulated other comprehensive income (loss)	823	862	(316)	(581)	(710)
Total members' equity	284,394	262,302	235,407	218,654	204,908
Total liabilities and members' equity	<u>\$ 2,453,941</u>	<u>\$ 2,294,433</u>	<u>\$ 2,081,334</u>	<u>\$ 1,614,644</u>	<u>\$ 1,375,913</u>
<b>Statement of Income Data</b>					
Net interest income	\$ 60,180	\$ 55,847	\$ 47,713	\$ 40,368	\$ 36,935
Loan loss reversal (provision for loan losses)	2,454	22	3,435	(1,557)	(2,135)
Income from the Farm Credit Bank of Texas	8,936	15,805	13,973	12,327	11,149
Other noninterest income	11,872	10,755	11,119	8,592	6,928
Noninterest expense	(36,522)	(35,536)	(30,100)	(25,310)	(23,797)
Provision for income taxes	(135)	(74)	(623)	(140)	-
Net income (loss)	<u>\$ 46,785</u>	<u>\$ 46,819</u>	<u>\$ 45,517</u>	<u>\$ 34,280</u>	<u>\$ 29,080</u>

**TEXAS FARM CREDIT SERVICES**

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

	2023	2022	2021	2020	2019
<b><u>Key Financial Ratios at Year End</u></b>					
Return on average assets	<b>2.0%</b>	2.1%	2.5%	2.3%	2.2%
Return on average members' equity	<b>16.5%</b>	18.1%	18.9%	15.6%	13.9%
Net interest income as a percentage of average earning assets	<b>2.6%</b>	2.5%	2.6%	2.7%	2.9%
Net charge-offs (recoveries) as a percentage of average loans	<b>0.0%</b>	0.0%	0.0%	0.0%	0.0%
Members' equity as a percentage of total assets	<b>11.6%</b>	11.4%	11.3%	13.5%	14.9%
Debt as a percentage of members' equity	<b>762.9%</b>	774.7%	784.1%	638.4%	571.5%
Allowance for credit losses on loans as a percentage of loans	<b>0.1%</b>	0.1%	0.2%	0.4%	0.3%
Common equity tier 1 ratio	<b>13.2%</b>	12.6%	12.6%	13.5%	14.2%
Tier 1 capital ratio	<b>13.2%</b>	12.6%	12.6%	13.5%	14.2%
Total capital ratio	<b>13.3%</b>	12.7%	12.8%	13.9%	14.5%
Permanent capital ratio	<b>13.2%</b>	12.6%	12.6%	13.5%	14.2%
Tier 1 leverage ratio	<b>10.8%</b>	10.5%	11.4%	13.3%	14.0%
UREE leverage ratio	<b>8.4%</b>	7.9%	9.0%	10.1%	10.6%
<b><u>Net Income Distribution</u></b>					
Patronage dividends:					
Cash	\$ 21,481	\$ 21,147	\$ 23,701	\$ 19,035	\$ 17,866
Allocated retained earnings	-	-	6,029	6,993	7,750

The Association's ratios remained well above the regulatory minimums, including the conservation and leverage buffers at December 31, 2023. For more information, see Note 10, "Members Equity," in the accompanying consolidated financial statements.

## **MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Unaudited)**

The following commentary explains management’s assessment of the principal aspects of the consolidated financial condition and results of operations of 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, 2023, 2022 and 2021, 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 expectations and predictions due to a number of risks and uncertainties, many of which are beyond management’s control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural infrastructure, international and farm-related business sectors, as well as in the general economy that can affect the availability of off-farm sources of income;
- weather-related, food safety, disease-related and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- disruption of operations or disclosures of confidential information as a result of cybersecurity incidents;
- changes in United States government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government and government-sponsored enterprises;
- actions taken by the Federal Reserve System in implementing monetary policy; and
- credit, interest rate, prepayment and liquidity risk inherent in lending activities.

### **Commodity Review and Outlook:**

2023 presented many producers in the Association’s territory with the challenge of drought and elevated input prices. Dryland corn and grain sorghum that was planted early generally fared well, especially if marketed in the first half of the year. Much of the territory’s dryland cotton production was severely impacted by a late spring and summer drought. Irrigated producers were faced with an especially high cost of production, generally offsetting the benefit of higher yields. 2023 was a favorable year to own and a challenging year to acquire cattle, as cattle raisers with existing inventory benefitted from rising prices the first three quarters of 2023. The Association has a sizeable agricultural real estate secured portfolio which has benefitted from a strong Texas economy and continued price appreciation.

Today's agricultural producers face unique challenges including unpredictable weather, volatile commodity prices, inflated input costs, and labor constraints. As an experienced rural lender, Texas Farm Credit Services understands the cyclical nature of the agricultural industry and is committed to meeting the production credit, mortgage financing, and risk management needs of its member owners. In doing so, the Association fulfills its Farm Credit mission to support rural communities and agriculture with reliable, consistent credit and financial services.

**Significant Events:**

In December 2023, the Association entered into a Joint Management Agreement with Heritage Land Bank, ACA. The Agreement established Texas Farm Credit Services' CEO, Mark Miller, as CEO of both organizations and provided an opportunity for the respective boards of directors to assess the potential benefits of a merger.

In June 2023, Keith Ibrom transitioned from Chief Financial Officer to a consulting role as part of a planned retirement process. Effective July 1, 2023, Lane Pepper assumed the dual role of Chief Financial & Risk Officer.

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.

**Adoption of New Accounting Standard:**

Effective January 1, 2023, the Association adopted the current expected credit losses (CECL) accounting guidance that replaced the incurred loss guidance. CECL established a single allowance framework for financial assets carried at amortized cost and certain off-balance-sheet credit exposures. CECL requires management to consider in its estimate of allowance for credit losses (ACL) relevant historical events, current conditions and reasonable and supportable forecasts that affect the collectability of the assets. The adoption of this guidance resulted in a cumulative effect transition adjustment at January 1, 2023, reflecting an increase in the Association's ACL of \$1,705,736 on outstanding loans and unfunded commitments and a corresponding decrease in retained earnings.

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

**Patronage Refunds Received From Farm Credit Bank of Texas:**

In December 2023, the Association recognized a direct loan patronage of \$5,647,826 from the Bank, representing 27.7 basis points on the average daily balance of the Association's direct loan with the Bank. The cash portion of this direct loan patronage was \$3,953,478, with the remaining \$1,694,348 distributed in the form of allocated equities. The Association received a \$1,704,172 patronage based on its capitalized and non-capitalized participation pool agreements with the Bank. During 2023, the Association received \$1,455,161 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 \$121,527 from the Bank, representing 75 basis points on the Association's average balance of participations in the Bank's patronage pool program.

**Patronage Refunds by Association:**

In April 2023, Texas Farm Credit Services paid a \$20,505,886 cash patronage for all eligible recipients who had outstanding accrual loans with the Association during fiscal year 2022. In December 2023, the Association distributed \$975,507 in cash patronage from redeemable allocated surplus originally declared in 2015.

For more than 89 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.

**Loan Portfolio:**

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans, and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed, adjustable, SOFR-based and WSJP-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.

Demand for production and intermediate-term credit was high in 2023, with the dollar and percentage growth in this segment of the portfolio exceeding that of the Association's largest loan type, real estate mortgages. Strength in

the Association’s agribusiness lending resulted in it also experiencing higher percentage growth than that of real estate mortgages. Credit quality remained favorable, ending 2023 at 98.1 percent acceptable classed. For the fourth consecutive year, the Association had no acquired property to report in 2023.

The composition of the Association’s loan portfolio, which net of funds held totaled \$2,365,070,169, \$2,218,378,245 and \$2,014,918,904 as of December 31, 2023, 2022 and 2021, respectively, is described more fully in detailed tables in Note 4, “Loans and Allowance for Credit Losses on Loans,” in the accompanying consolidated financial statements.

At December 31, 2023, the Association held loans totaling \$686,003 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 2023, 2022 and 2021, the Association was participating in loans with other lenders. As of December 31, 2023, 2022 and 2021, these participations totaled \$239,244,730, \$210,680,692 and \$205,166,277, or 10.1 percent, 9.5 percent and 10.2 percent of loans, respectively. Included in these amounts are participations purchased from entities outside the District of \$44,874,730, \$34,623,892 and \$47,211,161, or 1.9 percent, 1.6 percent and 2.3 percent of loans, respectively. The Association has also sold participations of \$146,060,130, \$129,830,392 and \$108,964,168 as of December 31, 2023, 2022 and 2021, respectively.

**Risk Exposure:**

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

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

	Nonperforming Assets					
	2023		2022		2021	
	Amount	%	Amount	%	Amount	%
Nonaccrual loans	\$ 15,117,123	100.0%	\$ 10,503,174	86.8%	\$ 8,317,858	100.0%
Accruing loans 90 days or more past due	5	0.0%	1,598,991	13.2%	20	0.0%
Nonperforming loans	15,117,128	100.0%	12,102,165	100.0%	8,317,878	100.0%
Other property owned, net	-	0.0%	-	0.0%	-	0.0%
Nonperforming assets	\$ 15,117,128	100.0%	\$ 12,102,165	100.0%	\$ 8,317,878	100.0%

At December 31, 2023, 2022 and 2021, nonperforming loans were \$15,117,128, \$12,102,165 and \$8,317,878, representing 0.6 percent, 0.6 percent and 0.5 percent of loan volume, respectively.

The Association held no properties requiring classification as other property owned as of December 31, 2023, 2022 and 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.

**Allowance for Credit Losses on Loans:**

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

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

In estimating the component of the allowance for credit losses on loans that share common risk characteristics, loans are evaluated collectively and segregated into loan pools considering the risk associated with the specific pool. The allowance is determined based on a quantitative calculation of the expected life-of-loan loss percentage for each loan category by considering the probability of default (PD), based on the migration of loans from performing to loss by credit quality rating and the severity of loss, based on an assessment of loss given default (LGD).

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

Based upon ongoing risk assessment and the procedures outlined above, the allowance for credit losses on loans of \$2,409,922, \$3,051,962, and \$3,016,536 at December 31, 2023, 2022 and 2021, respectively, is considered adequate by management to compensate for losses in the loan portfolio at such dates. The Association's cash flow-based approach to credit analyses, and expectation of acceptable collateral margin, has resulted in a minimal loss history for the Association.

### **Results of Operations:**

The Association's net income for the year ended December 31, 2023, was \$46,785,056 as compared to \$46,818,700 for the year ended December 31, 2022, reflecting a decrease of \$33,644, or 0.1 percent. The Association's net income for the year ended December 31, 2021 was \$45,517,351. Net income increased \$1,301,349, or 2.9 percent, in 2022 versus 2021.

Net interest income for 2023, 2022 and 2021 was \$60,179,669, \$55,847,256 and \$47,713,115, respectively, reflecting increases of \$4,332,413, or 7.8 percent, for 2023 versus 2022 and \$8,134,141, or 17.0 percent, for 2022 versus 2021. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2023		2022		2021	
	Average Balance	Interest	Average Balance	Interest	Average Balance	Interest
Loans	\$ 2,265,162,071	\$ 129,171,569	\$ 2,151,130,655	\$ 100,935,918	\$ 1,778,001,755	\$ 77,813,673
Investments	359,383	26,201	565,608	34,872	865,925	49,039
Total interest-earning assets	2,265,521,454	129,197,770	2,151,696,263	100,970,790	1,778,867,680	77,862,712
Interest-bearing liabilities	2,041,063,056	69,018,101	1,939,352,236	45,123,534	1,577,668,479	30,149,597
Impact of capital	\$ 224,458,398		\$ 212,344,027		\$ 201,199,201	
Net interest income		\$ 60,179,669		\$ 55,847,256		\$ 47,713,115

	2023	2022	2021
	Average Yield	Average Yield	Average Yield
Yield on loans	5.70%	4.69%	4.38%
Yield on investments	7.29%	6.17%	5.66%
Total yield on interest-earning assets	5.70%	4.69%	4.38%
Cost of interest-bearing liabilities	3.38%	2.33%	1.91%
Interest rate spread	2.32%	2.36%	2.47%

	2023 vs. 2022			2022 vs. 2021		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income - loans	\$ 5,350,582	\$ 22,885,069	\$ 28,235,651	\$ 16,329,986	\$ 6,792,259	\$ 23,122,245
Interest income - investments	(12,715)	4,044	(8,671)	(17,008)	2,841	(14,167)
Total interest income	5,337,867	22,889,113	28,226,980	16,312,978	6,795,100	23,108,078
Interest expense	2,366,506	21,528,061	23,894,567	6,911,777	8,062,160	14,973,937
Net interest income	\$ 2,971,361	\$ 1,361,052	\$ 4,332,413	\$ 9,401,201	\$ (1,267,060)	\$ 8,134,141

Interest income for 2023 increased by \$28,226,980, or 28.0 percent, compared to 2022, primarily due to increases in yields on earning assets and an increase in average loan volume. Interest expense for 2023 increased by \$23,894,567, or 53.0 percent, compared to 2022 due to an increase in funding rates as well as an increase in average debt volume. The interest rate spread decreased by 4 basis points to 2.32 percent in 2023 from 2.36 percent in 2022, primarily because of continued market demand and competition for quality credits, which resulted in compressed interest rate spreads. The interest rate spread decreased by 9 basis points to 2.36 percent in 2022 from 2.47 percent in 2021, due primarily to competition for quality credits.

Noninterest income for 2023 decreased by \$5,751,777, or 21.7 percent, compared to 2022, due primarily to a reduction of direct note patronage from the Bank. Noninterest income for 2022 increased by \$1,466,707, or 5.8 percent, compared to 2021, due primarily to an increase in patronage income and financially related services income.

A \$2,454,416 reversal of provision for loan losses in 2023 was \$2,432,465 greater than the \$21,951 reversal experienced in 2022. This increase in provision reversal was due largely to a reduction in specific reserves with additional support provided by increased loan volume with Farmer Mac long-term standby purchase commitments.

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 2023 increased by \$984,861, or 2.8 percent, compared to 2022, primarily due to an increase in salaries, director expenses, travel, FCA supervisory fees and Farmer Mac guarantee fees offset by a decrease in purchased services and public and member relations expenses. Noninterest expenses for 2022 increased by \$5,436,493, or 18.1 percent, compared to 2021, primarily due to increases in Insurance Fund premiums, salaries and employee benefits, occupancy and equipment and Farmer Mac guarantee fees.

Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs resulted in the capitalization of \$2,483,497, \$3,170,737 and \$5,070,152 for 2023, 2022 and 2021, 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, 2023, the Association's return on average assets was 2.0 percent, as compared to 2.1 percent and 2.5 percent for the years ended December 31, 2022, and 2021, respectively. For the year ended December 31, 2023, the Association's return on average members' equity was 16.5 percent, as compared to 18.1 percent and 18.9 percent for the years ended December 31, 2022, and 2021, respectively.

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

### **Liquidity and Funding Sources:**

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

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$2,120,945,005, \$1,991,062,303 and \$1,804,831,571 as of December 31, 2023, 2022 and 2021, respectively, is recorded as a liability on the Association's Consolidated Balance Sheet. The note carried a weighted average interest rate of 3.38 percent, 2.33 percent and 1.91 percent at December 31, 2023, 2022 and 2021, 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, 2022, 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 \$243,905,585, \$228,410,548 and \$213,035,272 at December 31, 2023, 2022 and 2021, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2023, was \$2,374,653,569 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, 2026, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The liquidity policy of the Association is to manage cash balances, to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued during 2024. As borrower payments are received, they are applied to the Association's note payable to the Bank.

The Association will continue to fund its operations through direct borrowings from the Bank, net earnings, 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 \$284,394,082, \$262,302,480 and \$235,406,861 at December 31, 2023, 2022 and 2021, respectively.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital ratio 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, 2023, 2022 and 2021 was 13.2 percent, 12.6 percent and 12.6 percent, respectively. The Association is required to maintain 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, 2023, 2022 and 2021, was 13.2



percent, 12.6 percent and 12.6 percent, respectively. The tier 1 capital ratio at December 31, 2023, 2022 and 2021, was 13.2 percent, 12.6 percent and 12.6 percent, respectively. The total capital ratio was 13.3 percent, 12.7 percent and 12.8 percent at December 31, 2022, 2021 and 2020, 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, 2023, 2022 and 2021, was 10.8 percent, 10.5 percent and 11.4 percent, respectively. The UREE leverage ratio was 8.4 percent, 7.9 percent and 9.0 percent at December 31, 2023, 2022 and 2021, respectively.

In 2023, 2022 and 2021, the Association paid patronage distributions of \$21,481,393, \$21,147,015 and \$23,701,338, respectively. In December 2023, the board of directors approved an estimated \$21,969,124 cash patronage distribution to be paid in April 2024. See Note 10 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

### **Regulatory Matters:**

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

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

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

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

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

The Association's statutory obligation to borrow only from the Bank is discussed in Note 9, "Note Payable to the Bank," in the accompanying consolidated financial statements.

The Bank's ability to access capital of the Association is discussed in Note 2, "Summary of Significant Accounting Policies," in the accompanying consolidated financial statements within the section "Capital Stock Investment in the 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 9, "Note Payable to the Bank," in the accompanying consolidated consolidated financial statements.

The Bank provides technology services and 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 13, "Related Party Transactions," in the accompanying consolidated financial statements, the Bank provides many services that the Association can utilize, such as administrative, marketing, information systems and accounting services. Additionally, the Bank bills District expenses to the District associations, such as the Farm Credit System Insurance Corporation insurance premiums.

**Summary:**

Over the past 89 years, regardless of the state of the agricultural economy, your Association's board of directors and management have been committed to providing members 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

### ***Opinion***

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2023, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

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

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

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

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

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

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

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

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

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

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

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

### ***Other Information***

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

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



Austin, Texas  
March 8, 2024

**TEXAS FARM CREDIT SERVICES**

**CONSOLIDATED BALANCE SHEET**

	December 31,		
	2023	2022	2021
<b><u>Assets</u></b>			
Cash	\$ 22,851	\$ 26,159	\$ 49,663
Investments	301,055	424,737	734,626
Loans	2,365,070,169	2,218,378,245	2,014,918,904
Less: allowance for credit losses on loans	2,409,922	3,051,962	3,016,536
Net loans	<u>2,362,660,247</u>	<u>2,215,326,283</u>	<u>2,011,902,368</u>
Accrued interest receivable	22,247,759	18,151,458	12,695,690
Investment in and receivable from the Farm Credit Bank of Texas:			
Capital stock	42,377,213	38,519,130	30,952,565
Other	2,669,822	563,151	1,332,270
Deferred taxes, net	70,130	163,570	199,554
Premises and equipment	18,056,720	17,895,655	15,146,253
Other assets	5,535,444	3,363,181	8,320,554
Total assets	<u>\$ 2,453,941,241</u>	<u>\$ 2,294,433,324</u>	<u>\$ 2,081,333,543</u>
<b><u>Liabilities</u></b>			
Note payable to the Farm Credit Bank of Texas	\$ 2,120,945,005	\$ 1,991,062,303	\$ 1,804,831,571
Advance conditional payments	1,231,045	2,136,930	300,030
Accrued interest payable	6,557,132	4,876,398	2,851,345
Drafts outstanding	92,357	150,749	247,204
Patronage distributions payable	21,969,124	20,539,000	20,370,325
Other liabilities	18,752,496	13,365,464	17,326,207
Total liabilities	<u>2,169,547,159</u>	<u>2,032,130,844</u>	<u>1,845,926,682</u>
<b><u>Members' Equity</u></b>			
Capital stock and participation certificates	4,623,975	4,580,185	4,364,895
Additional paid-in capital	47,596,495	47,596,495	47,596,495
Allocated retained earnings	52,244,352	53,219,859	54,627,414
Unallocated retained earnings	179,106,436	156,044,338	129,133,773
Accumulated other comprehensive income (loss)	822,824	861,603	(315,716)
Total members' equity	<u>284,394,082</u>	<u>262,302,480</u>	<u>235,406,861</u>
Total liabilities and members' equity	<u>\$ 2,453,941,241</u>	<u>\$ 2,294,433,324</u>	<u>\$ 2,081,333,543</u>

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

*Texas Farm Credit Services — 2023 Annual Report*

**TEXAS FARM CREDIT SERVICES**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Year Ended December 31,		
	2023	2022	2021
<b><u>Interest Income</u></b>			
Loans	\$ 129,171,569	\$ 100,935,918	\$ 77,813,673
Investments	26,201	34,872	49,039
Total interest income	<u>129,197,770</u>	<u>100,970,790</u>	<u>77,862,712</u>
<b><u>Interest Expense</u></b>			
Note payable to the Farm Credit Bank of Texas	68,962,247	45,107,925	30,149,455
Advance conditional payments	55,854	15,609	142
Total interest expense	<u>69,018,101</u>	<u>45,123,534</u>	<u>30,149,597</u>
Net interest income	<u>60,179,669</u>	<u>55,847,256</u>	<u>47,713,115</u>
(Reversal of) provision for loan losses	<u>(2,454,416)</u>	<u>(21,951)</u>	<u>(3,434,679)</u>
Net interest income after provision for losses (loan loss reversal)	<u>62,634,085</u>	<u>55,869,207</u>	<u>51,147,794</u>
<b><u>Noninterest Income</u></b>			
Income from the Farm Credit Bank of Texas:			
Patronage income	8,936,478	15,805,180	13,972,755
Loan fees	4,913,293	4,579,788	5,314,641
Financially related services income	5,786,946	5,350,682	4,938,835
Gain on sale of premises and equipment, net	398,037	383,318	579,658
Other noninterest income	773,253	440,816	287,188
Total noninterest income	<u>20,808,007</u>	<u>26,559,784</u>	<u>25,093,077</u>
<b><u>Noninterest Expenses</u></b>			
Salaries and employee benefits	20,279,310	19,265,039	17,045,906
Directors' expense	666,885	507,293	523,786
Purchased services	893,000	1,222,048	1,794,222
Travel	1,835,477	1,713,860	1,301,380
Occupancy and equipment	3,449,714	3,453,554	2,875,434
Communications	427,576	454,969	382,806
Advertising	369,599	402,207	402,803
Public and member relations	1,100,815	1,306,228	1,163,912
Supervisory and exam expense	582,623	528,982	459,883
Insurance Fund premiums	3,500,729	3,685,870	2,374,492
Other noninterest expense	3,415,918	2,996,735	1,775,668
Total noninterest expenses	<u>36,521,646</u>	<u>35,536,785</u>	<u>30,100,292</u>
Income before income taxes	<u>46,920,446</u>	<u>46,892,206</u>	<u>46,140,579</u>
Provision for income taxes	<u>135,390</u>	<u>73,506</u>	<u>623,228</u>
<b>NET INCOME</b>	<u><b>46,785,056</b></u>	<u><b>46,818,700</b></u>	<u><b>45,517,351</b></u>
Other comprehensive income, net of tax	<u>(38,779)</u>	<u>1,177,319</u>	<u>265,073</u>
<b>COMPREHENSIVE INCOME</b>	<u><b>\$ 46,746,277</b></u>	<u><b>\$ 47,996,019</b></u>	<u><b>\$ 45,782,424</b></u>

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

*Texas Farm Credit Services — 2023 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, 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 and allocated retained earnings 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
Comprehensive income	-	-	-	46,818,700	1,177,319	47,996,019
Capital stock/participation certificates issued	516,115	-	-	-	-	516,115
Capital stock/participation certificates and allocated retained earnings retired	(300,825)	-	-	-	-	(300,825)
Patronage dividends:						
Cash	-	-	(1,298,092)	(20,017,598)	-	(21,315,690)
Capital stock/participation certificates and allocated retained earnings	-	-	(109,463)	109,463	-	-
Balance at December 31, 2022	4,580,185	47,596,495	53,219,859	156,044,338	861,603	262,302,480
Cumulative effect of a change in accounting principle	-	-	-	(1,786,948)	-	(1,786,948)
Balance at January 1, 2023	4,580,185	47,596,495	53,219,859	154,257,390	861,603	260,515,532
Comprehensive income	-	-	-	46,785,056	(38,779)	46,746,277
Capital stock/participation certificates issued	291,495	-	-	-	-	291,495
Capital stock/participation certificates and allocated retained earnings retired	(247,705)	-	-	-	-	(247,705)
Patronage dividends:						
Cash	-	-	(975,507)	(21,936,010)	-	(22,911,517)
<b>Balance at December 31, 2023</b>	<b>\$ 4,623,975</b>	<b>\$ 47,596,495</b>	<b>\$ 52,244,352</b>	<b>\$ 179,106,436</b>	<b>\$ 822,824</b>	<b>\$ 284,394,082</b>

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

Texas Farm Credit Services — 2023 Annual Report

**TEXAS FARM CREDIT SERVICES**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Year Ended December 31,		
	2023	2022	2021
<b>Cash flows from operating activities:</b>			
Net income	\$ 46,785,056	\$ 46,818,700	\$ 45,517,351
Adjustments to reconcile net income to net cash provided by operating activities:			
(Loan loss reversal) provision for loan losses	(2,459,535)	14,209	(3,402,731)
Depreciation	1,542,913	1,578,843	1,370,778
Amortization of net discounts in investments	67,413	39,178	39,564
Gain on sale of premises and equipment, net	(398,037)	(383,318)	(579,658)
Increase in accrued interest receivable	(4,096,301)	(5,455,768)	(2,324,577)
(Increase) decrease in other receivables from the Farm Credit Bank of Texas	(2,106,671)	769,119	(612,870)
Decrease in deferred tax assets	93,440	35,984	512,384
(Increase) decrease in other assets	(2,172,263)	4,957,373	(5,294,403)
Increase in accrued interest payable	1,680,734	2,025,053	613,880
Increase (decrease) in other liabilities	5,348,253	(2,783,424)	3,961,574
Net cash provided by operating activities	44,285,002	47,615,949	39,801,292
<b>Cash flows from investing activities:</b>			
Increase in loans, net	(146,759,337)	(203,498,519)	(451,698,503)
Cash recoveries of loans previously charged off	30,547	21,217	419,576
Proceeds from purchase of investment in the Farm Credit Bank of Texas	(3,858,083)	(7,566,565)	(6,192,015)
Investment securities held-to-maturity			
Proceeds from maturities, calls and prepayments	123,682	309,889	319,474
Purchases of premises and equipment	(1,777,373)	(4,542,886)	(2,231,257)
Proceeds from sales of premises and equipment	471,432	597,959	661,154
Net cash used in investing activities	(151,769,132)	(214,678,905)	(458,721,571)

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

*Texas Farm Credit Services — 2023 Annual Report*



**TEXAS FARM CREDIT SERVICES**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Year Ended December 31,		
	2023	2022	2021
<b>Cash flows from financing activities:</b>			
Net draws on note payable to the Farm Credit Bank of Texas	<b>129,882,702</b>	186,230,732	440,128,291
(Decrease) increase in drafts outstanding	<b>(58,392)</b>	(96,455)	169,349
(Decrease) increase in advance conditional payments	<b>(905,885)</b>	1,836,900	(190,108)
Issuance of capital stock and participation certificates	<b>291,495</b>	516,115	941,700
Retirement of capital stock and participation certificates	<b>(247,705)</b>	(300,825)	(751,550)
Patronage distributions paid	<b>(21,481,393)</b>	(21,147,015)	(23,701,338)
Net cash provided by financing activities	<b>107,480,822</b>	167,039,452	416,596,344
Net decrease in cash	<b>(3,308)</b>	(23,504)	(2,323,935)
Cash at the beginning of the year	<b>26,159</b>	49,663	2,373,598
Cash at the end of the year	<b>\$ 22,851</b>	\$ 26,159	\$ 49,663
<b>Supplemental schedule of noncash operating, investing and financing activities:</b>			
Patronage distributions declared	<b>\$ 21,969,124</b>	\$ 20,539,000	\$ 20,370,325
Transfer of allowance for credit losses on loans from (into) reserve for credit losses on unfunded commitments	<b>46,389</b>	36,160	31,948
Cumulative effect adjustments related to implementation of CECL:			
Allowance for credit losses on loans	<b>1,705,736</b>	-	-
Deferred tax asset	<b>81,212</b>	-	-
<b>Supplemental cash flow information:</b>			
Cash paid during the year for:			
Interest	<b>\$ 67,337,367</b>	\$ 43,098,481	\$ 29,535,717
Income taxes	<b>125,000</b>	145,000	286,648

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

*Texas Farm Credit Services — 2023 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, FLCA (collectively called the “Association”), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of 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, 2023, the System consisted of three Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

The Farm Credit Bank of Texas (Bank) and its related associations are collectively referred to as the “District.” The Bank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. At December 31, 2023, the District consisted of the Bank, one FLCA and 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 Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow and financial services that can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible

borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related businesses. The Association makes and services short- and intermediate-term loans for agricultural production or operating purposes, and secured long-term real estate mortgage loans, with funding from the Bank.

The Association also serves as an intermediary in offering credit life insurance, crop insurance, livestock 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. The Bank's Annual Report to Stockholders discusses the material aspects of the District's financial condition, changes in financial condition and results of operations. In addition, the Bank's Annual Report to Stockholders identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Fund. Upon request, stockholders of the Association will be provided with the Bank's Annual Report to Stockholders.

In December 2023, the Association entered into a Joint Management Agreement with Heritage Land Bank, ACA. The Agreement established Texas Farm Credit Services' CEO, Mark Miller, as CEO of both organizations and provided an opportunity for the respective boards of directors to assess the potential benefits of a merger.

## **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 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:**

On January 1, 2023, the Association adopted the Financial Accounting Standards Board (FASB) guidance entitled "Measurement of Credit Losses on Financial Instruments" and other subsequently issued accounting standards updates related to credit losses. This guidance replaced the current incurred loss impairment methodology with a single allowance framework that estimates the current expected credit losses (CECL) over the remaining contractual life for all financial assets measured at amortized cost and certain off-balance-sheet credit exposures. This guidance is applied on a modified retrospective basis. This framework requires management to consider in its estimate of the allowance for credit losses (ACL) relevant historical events, current conditions and reasonable and supportable forecasts that consider macroeconomic conditions. In addition, the guidance amends existing impairment guidance for held-to-maturity and available-for-sale investments to incorporate an allowance for credit

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

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

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

	<b>December 31, 2022</b>	<b>CECL adoption impact</b>	<b>January 1, 2023</b>
<b>Assets:</b>			
Allowance for credit losses on loans	\$ 3,051,962	\$ 1,735,440	\$ 4,787,402
Deferred tax assets	\$ 163,570	\$ (81,212)	\$ 82,358
<b>Liabilities:</b>			
Allowance for credit losses on unfunded commitments	\$ 203,392	\$ (29,704)	\$ 173,688
<b>Retained earnings:</b>			
Unallocated retained earnings, net of tax	\$ 156,044,338	\$ (1,786,948)	\$ 154,257,390

In December 2022, the FASB issued an update entitled "Reference Rate Reform – Deferral of the Sunset Date of Topic 848." In March 2020, the FASB issued guidance entitled “Facilitation of the Effects of Reference Rate Reform on Financial Reporting (Reference Rate Reform).” The guidance provided optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform to ease the potential burden related to reference rate reform (transition away from the London Inter-Bank Offered Rate (LIBOR)). At the time the update was issued, the expectation was that LIBOR would cease to be published after December 31, 2021.

In January 2021, the FASB issued an update to Reference Rate Reform whereby certain derivative instruments could be modified to change the rate used for margining, discounting, or contract price alignment. An entity could elect to apply the new amendments on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 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 did 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.

Subsequent to the issuance of the January 2021 update, it was announced that the intended cessation date for various tenors of LIBOR would be September 30, 2023, thus necessitating the update to the sunset date. The amendments in the current update defer the sunset date from December 31, 2022 to December 31, 2024, after which entities will no longer be permitted to apply the relief.

In March 2022, the FASB issued an update entitled “Derivatives and Hedging: Fair Value Hedging – Portfolio Layer Method.” Under current guidance, the last-of-layer method enables an entity to apply fair value hedging to a stated amount of a closed portfolio of prepayable financial assets (or one or more beneficial interests secured by a portfolio of prepayable financial instruments) without having to consider prepayment risk or credit risk when measuring those assets. This guidance will allow entities to apply the portfolio layer method to portfolios of all financial assets, including both prepayable and nonprepayable financial assets. This scope expansion is consistent with the FASB’s efforts to simplify hedge accounting and allows entities to apply the same method to similar

hedging strategies. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. The adoption of this guidance did not impact the Association's financial condition or results of operation as the System does not have a current derivative hedging strategy in which the last-of-layer method is used.

- B. Cash: Cash, as included in the financial statements, represents cash on hand and deposits at banks.
- C. Investments: In accordance with the Farm Credit Administration regulations, the Association, with the approval of the Bank, may purchase and hold investments to manage risks. The Association must identify and evaluate how the investments that it purchases contribute 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 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 which 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.

The investments may not necessarily be held to maturity and accordingly would be 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)). The Association holds no available-for-sale investments.

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.

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.

Upon adoption of CECL guidance, investments held-to-maturity are presented net of an allowance for credit losses on investments. The guidance also amended the previous other-than temporary impairment (OTTI) model for investments available-for-sale to incorporate an allowance for credit losses.

Impairment may result from credit deterioration of the issuer or collateral underlying the security. In performing an assessment of whether any decline in fair value is due to a credit loss, all relevant information is considered at the individual security level. For mortgage-backed and asset-backed securities, performance indicators considered relate to the underlying assets, including default rates, delinquency rates, percentage of nonperforming assets, debt-

to-collateral ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, analyst reports and forecasts, credit ratings and other market data.

With respect to certain classes of debt securities, primarily U.S. Treasuries and government guaranteed agency securities, management considers the history of credit losses, current conditions and reasonable and supportable forecasts, which may indicate the expectation that nonpayment of the amortized cost basis is or continues to be zero, even if the U.S. government were to technically default. Therefore, for those securities, System associations do not record expected credit losses.

Available-for-sale debt securities in unrealized loss positions are evaluated for impairment related to credit losses at least quarterly. For these securities, a decline in fair value due to estimated credit loss results in recording an allowance for credit losses to the extent the fair value is less than the amortized cost basis. The allowance is measured using market information where available and discounting the cash flows at the original effective rate of the investment security. The allowance is adjusted each period through earnings and can be subsequently recovered. Declines in fair value that have not been recorded through an allowance for credit losses, such as declines due to changes in market interest rates, are recorded through other comprehensive income, net of applicable taxes.

In assessing whether a credit loss exists for held-to-maturity investments, the present value of cash flows expected to be collected from the security is compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis for the security, a credit loss exists and an allowance for credit losses is recorded, limited to the amount the fair value is less than amortized cost basis.

If the intention is to sell a debt security or it is more likely than not to be required to sell the security before recovery of its amortized cost basis, the debt security is written down to its fair value and the write down is charged against the allowance for credit losses with any incremental impairment reported in earnings.

To the extent that debt securities in the held-to-maturity portfolio share common risk characteristics, estimated expected credit losses are calculated in a manner like that used for loans held for investment. That is, for pools of such securities with common risk characteristics, the historical lifetime probability of default and severity of loss in the event of default is derived or obtained from external sources and adjusted for the expected effects of reasonable and supportable forecasts over the expected lives of the securities on those historical credit losses.

Expected credit loss on each security in the held-to-maturity portfolio that do not share common risk characteristics with any of the pools of debt securities is individually measured based on net realizable value, or the difference between the discounted value of the expected future cash flows, based on the original effective interest rate, and the recorded amortized cost basis of the security.

The Association is also allowed to purchase and hold the portion of certain loans that non-System lenders originate and sell in the secondary market, and that the USDA unconditionally guarantees or insures as to the timely payment of principal and interest.

- D. Loans and Allowance for Credit Losses on Loans: 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. Loan origination fees and direct loan origination costs are capitalized and the net fee or cost is amortized over the life of the related loan as an adjustment to yield. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

#### *Nonaccrual Loans*

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

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

When loans are in nonaccrual status, interest payments received in cash are recognized as interest income if collectability of the loan is fully expected and certain other criteria are met. Otherwise, payments received are applied against the recorded investment in the loan. Nonaccrual loans are returned to accrual status if all contractual principal and interest is current, the borrower has demonstrated payment performance, and collection is fully expected to fulfill the contractual repayments terms, and after remaining current as to principal and interest for a sustained period or have a recent repayment pattern demonstrating future repayment capacity to make on-time payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer should first be recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

#### *Accrued Interest Receivable*

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

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

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

#### *Collateral Dependent Loans*

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

#### *Allowance for Credit Losses*

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

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

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

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

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

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

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

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

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

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



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

The economic forecasts, which are updated quarterly, incorporate macroeconomic variables, including the U.S. unemployment rate, consumer price index (CPI), and federal funds rate. The Association also considers loan and borrower characteristics, such as internal risk ratings, industry, and the remaining term of the loan, adjusted for expected prepayments.

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

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

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

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

- 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 Consolidated Statement 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:** Substantially all employees of the Association may be eligible to participate in either the District defined benefit retirement plan (DB plan) or the defined contribution plan (DC plan). All eligible employees may participate in the Farm Credit Benefits Alliance 401(k) Plan. 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, 2023, made on their behalf into various investment alternatives.

The structure of the District's DB plan is characterized as multi-employer, since 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 \$640,921, \$834,811 and \$812,662 for the years ended December 31, 2023, 2022 and 2021, respectively. For the DB plan, the Association recognized pension costs of \$309,219, \$425,097 and \$632,970 for the years ended December 31, 2023, 2022 and 2021, respectively.

The Association also participates in the Farm Credit Benefits Alliance 401(k) Plan, which requires the associations to match 100 percent of employee contributions up to 3.0 percent of eligible earnings and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The Association's contributions to the 401(k) plan were \$468,925, \$608,680 and \$608,554 for the years ended December 31, 2023, 2022 and 2021, 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 \$42,028, \$60,331 and \$132,302 for the years ended December 31, 2023, 2022 and 2021, respectively.

In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer 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.

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 which 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 14, "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:**

The Association holds Federal Agricultural Mortgage Corporation (Farmer Mac) agricultural mortgage-backed securities. These securities were agricultural loans previously covered under a Long-Term Standby Commitment to Purchase agreement with Farmer Mac and were subsequently 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:

	<b>December 31, 2023</b>				
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Fair Value</b>	<b>Weighted Average Yield</b>	<b>Weighted Average Life</b>
Agricultural mortgage-backed securities	\$ 301,055	\$ (9,084)	\$ 291,971	6.12%	3.82 Years
	<b>December 31, 2022</b>				
	<b>Amortized Cost</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>	<b>Weighted Average Yield</b>	<b>Weighted Average Life</b>
Agricultural mortgage-backed securities	\$ 424,737	\$ (16,159)	\$ 408,578	5.80%	4.64 Years
	<b>December 31, 2021</b>				
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Fair Value</b>	<b>Weighted Average Yield</b>	<b>Weighted Average Life</b>
Agricultural mortgage-backed securities	\$ 734,626	\$ 21,909	\$ 756,535	5.30%	3.97 Years

The Association evaluates investment securities with unrealized losses for impairment on a quarterly basis. As part of the assessment, the Association evaluated and concluded that they do not intend to sell the security or it is not more likely than not that they would be required to sell the security, prior to recovery of the amortized cost basis. The Association also evaluated whether credit impairment exists by comparing the present value of the expected cash flows to the security’s amortized cost basis. Credit impairment, if any, is recorded as an ACL for debt securities. The Association does not consider the unrealized losses to be credit-related and an allowance for credit losses is not necessary.

The guidance, prior to the adoption of CECL, for other-than-temporary impairment contemplated numerous factors in determining whether an impairment is other-than-temporary including: (1) whether or not an entity intends to sell the security, (2) whether it is more likely than not that an entity would be required to sell the security before recovering its costs, or (3) whether or not an entity expects to recover the security’s entire amortized cost basis (even if it does not intend to sell).

#### NOTE 4 — LOANS AND ALLOWANCE FOR CREDIT LOSSES ON LOANS:

A summary of loans as of December 31 follows:

Loan Type	2023		2022		2021	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 1,841,308,216	77.9%	\$ 1,801,949,287	81.3%	\$ 1,635,980,127	81.2%
Production and intermediate-term	320,588,672	13.6%	257,966,403	11.6%	226,249,957	11.2%
Agribusiness:						
Processing and marketing	91,855,671	3.9%	69,301,464	3.1%	71,151,825	3.5%
Farm-related business	44,182,696	1.9%	36,011,762	1.6%	33,817,546	1.7%
Loans to cooperatives	19,300,676	0.8%	22,640,041	1.0%	20,354,200	1.0%
Communication	20,490,514	0.9%	16,267,788	0.7%	16,117,601	0.8%
Water and waste-water	14,902,097	0.6%	7,073,081	0.3%	3,096,879	0.2%
Agricultural export finance	5,587,816	0.2%	3,440,131	0.2%	4,086,388	0.2%
Energy	5,106,807	0.2%	1,858,635	0.1%	2,080,747	0.1%
Rural residential real estate	1,002,365	0.0%	1,070,269	0.1%	1,135,612	0.1%
Mission-related investments	744,639	0.0%	799,384	0.0%	848,022	0.0%
Total	<u>\$ 2,365,070,169</u>	<u>100.0%</u>	<u>\$ 2,218,378,245</u>	<u>100.0%</u>	<u>\$ 2,014,918,904</u>	<u>100.0%</u>

At December 31, 2023, the Association held loans totaling \$686,003 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, 2023:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Real estate mortgage	\$ 58,271,302	\$ 84,399,366	\$ 8,627,044	\$ -	\$ 66,898,346
Production and intermediate-term	26,564,240	49,974,510	-	1,134,141	26,564,240	51,108,651
Agribusiness	96,111,623	10,552,113	3,583,287	-	99,694,910	10,552,113
Communication	20,490,514	-	-	-	20,490,514	-
Water and waste-water	14,902,097	-	-	-	14,902,097	-
Agricultural export finance	5,587,816	-	-	-	5,587,816	-
Energy	5,106,807	-	-	-	5,106,807	-
Total	<u>\$ 227,034,399</u>	<u>\$ 144,925,989</u>	<u>\$ 12,210,331</u>	<u>\$ 1,134,141</u>	<u>\$ 239,244,730</u>	<u>\$ 146,060,130</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	2023	2022	2021
Hidalgo	5.1%	4.4%	4.4%
Henderson	3.1%	2.9%	2.5%
Nueces	3.1%	2.8%	2.1%
Fayette	3.0%	2.8%	2.6%
Washington	2.3%	2.4%	2.4%
Grayson	2.2%	2.3%	2.1%
Cameron	2.2%	2.0%	1.9%
Collin	2.2%	1.5%	1.7%
Frio	2.1%	2.1%	2.1%
Fannin	2.0%	1.0%	1.1%
Bandera	1.6%	1.8%	2.2%
Other	71.1%	74.0%	74.9%
	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While 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	2023		2022		2021	
	Amount	%	Amount	%	Amount	%
Crops and agricultural commodities	\$ 774,868,223	32.8%	\$ 741,232,745	33.5%	\$ 630,897,410	31.3%
Livestock	740,394,437	31.3%	681,005,644	30.7%	492,516,890	24.4%
Hunting, trapping and game propagation	600,034,930	25.4%	579,150,329	26.1%	690,592,383	34.3%
Farm-related operations	248,849,838	10.5%	215,896,912	9.7%	199,521,719	9.9%
Rural home loans	922,741	0.0%	1,092,615	0.0%	1,390,502	0.1%
Total	<b>\$ 2,365,070,169</b>	<b>100.0%</b>	<b>\$ 2,218,378,245</b>	<b>100.0%</b>	<b>\$ 2,014,918,904</b>	<b>100.0%</b>

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. The commitments, which will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of defaults (typically four months past due), subject to certain conditions. At December 31, 2023, 2022 and 2021, loans totaling \$602,645,101, \$537,710,727 and \$310,635,666, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled \$2,383,429, \$1,780,677 and \$792,011 in 2023, 2022 and 2021, respectively, and are included in other noninterest expense.

## Credit Quality

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

The Association uses a two-dimensional risk rating model based on an internally generated combined System risk rating guidance that incorporates a 14-point probability of default rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full and/or the loan is classified nonaccrual. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses and risks in a particular relationship.

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

- Acceptable — assets are expected to be fully collectible and represent the highest quality;
- Other assets especially mentioned (OAEM) — assets are currently collectible but exhibit some potential weakness;
- Substandard — assets exhibit some serious weakness that if not cured jeopardizes repayment;
- Doubtful — assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable; and
- Loss — assets are considered uncollectible.

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

	Term Loans Amortized Cost by Origination Year						Revolving Loans Amortized Cost	Revolving Loans Converted to Term Loans Amortized Cost	Total
	2023	2022	2021	2020	2019	Prior	Basis	Basis	
<b>Real estate mortgage</b>									
Acceptable	\$ 250,719,930	\$ 377,761,439	\$ 557,875,226	\$ 284,123,745	\$ 95,059,256	\$ 265,226,995	\$ -	\$ -	\$ 1,830,766,591
OAEM	-	-	766,062	846,430	1,468,817	1,471,092	-	-	4,552,401
Substandard/Doubtful	250,000	-	2,399,262	660,308	254,468	2,425,186	-	-	5,989,224
	<u>250,969,930</u>	<u>377,761,439</u>	<u>561,040,550</u>	<u>285,630,483</u>	<u>96,782,541</u>	<u>269,123,273</u>	<u>-</u>	<u>-</u>	<u>1,841,308,216</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
<b>Production and intermediate-term</b>									
Acceptable	86,674,324	25,937,430	12,419,407	17,070,699	923,544	3,639,457	159,214,977	-	305,879,838
OAEM	4,446,438	10,259	-	-	75,025	-	673,350	-	5,205,072
Substandard/Doubtful	8,872,056	218,572	128,498	-	211,583	73,053	-	-	9,503,762
	<u>99,992,818</u>	<u>26,166,261</u>	<u>12,547,905</u>	<u>17,070,699</u>	<u>1,210,152</u>	<u>3,712,510</u>	<u>159,888,327</u>	<u>-</u>	<u>320,588,672</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
<b>Agribusiness</b>									
Acceptable	22,855,701	43,757,260	13,076,892	11,398,659	4,761,367	531,875	43,074,590	-	139,456,344
OAEM	-	1,866,265	-	-	-	-	1,867,894	-	3,734,159
Substandard/Doubtful	-	-	-	4,533,639	-	7,614,901	-	-	12,148,540
	<u>22,855,701</u>	<u>45,623,525</u>	<u>13,076,892</u>	<u>15,932,298</u>	<u>4,761,367</u>	<u>8,146,776</u>	<u>44,942,484</u>	<u>-</u>	<u>155,339,043</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
<b>Communications</b>									
Acceptable	9,095,375	-	-	10,178,850	-	-	136,850	-	19,411,075
OAEM	-	-	-	1,079,439	-	-	-	-	1,079,439
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>9,095,375</u>	<u>-</u>	<u>-</u>	<u>11,258,289</u>	<u>-</u>	<u>-</u>	<u>136,850</u>	<u>-</u>	<u>20,490,514</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
<b>Energy</b>									
Acceptable	3,495,734	-	-	-	-	1,315,321	-	-	4,811,055
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	295,752	-	-	295,752
	<u>3,495,734</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,611,073</u>	<u>-</u>	<u>-</u>	<u>5,106,807</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
<b>Water and waste-water</b>									
Acceptable	9,377,548	2,905,440	2,497,062	-	-	-	122,047	-	14,902,097
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>9,377,548</u>	<u>2,905,440</u>	<u>2,497,062</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>122,047</u>	<u>-</u>	<u>14,902,097</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
<b>Rural residential real estate</b>									
Acceptable	-	-	-	85,140	-	504,438	-	-	589,578
OAEM	-	-	-	-	-	334,912	-	-	334,912
Substandard/Doubtful	-	-	-	-	-	77,875	-	-	77,875
	<u>-</u>	<u>-</u>	<u>-</u>	<u>85,140</u>	<u>-</u>	<u>917,225</u>	<u>-</u>	<u>-</u>	<u>1,002,365</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
<b>Agricultural export finance</b>									
Acceptable	5,587,816	-	-	-	-	-	-	-	5,587,816
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>5,587,816</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,587,816</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
<b>Mission-related investments</b>									
Acceptable	-	-	-	-	-	744,639	-	-	744,639
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>744,639</u>	<u>-</u>	<u>-</u>	<u>744,639</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
<b>Total Loans</b>									
Acceptable	387,806,428	450,361,569	585,868,587	322,857,093	100,744,167	271,962,725	202,548,464	-	2,322,149,033
OAEM	4,446,438	1,876,524	766,062	1,925,869	1,543,842	1,806,004	2,541,244	-	14,905,983
Substandard/Doubtful	9,122,056	218,572	2,527,760	5,193,947	466,051	10,486,767	-	-	28,015,153
	<u>\$ 401,374,922</u>	<u>\$ 452,456,665</u>	<u>\$ 589,162,409</u>	<u>\$ 329,976,909</u>	<u>\$ 102,754,059</u>	<u>\$ 284,255,496</u>	<u>\$ 205,089,708</u>	<u>\$ -</u>	<u>\$ 2,365,070,169</u>
<b>Total current period gross charge-offs</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -



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, 2023, 2022 and 2021:

	2023	2022	2021
Real estate mortgage			
Acceptable	99.3 %	99.4 %	98.8 %
OAEM	0.4 %	0.2 %	0.6 %
Substandard/doubtful	0.3 %	0.4 %	0.6 %
	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
Production and intermediate term			
Acceptable	95.4 %	97.8 %	93.8 %
OAEM	1.6 %	1.3 %	2.4 %
Substandard/doubtful	3.0 %	0.9 %	3.8 %
	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
Loans to cooperatives			
Acceptable	100.0 %	100.0 %	97.9 %
OAEM	-	-	2.1 %
Substandard/doubtful	-	-	-
	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
Processing and marketing			
Acceptable	95.9 %	92.1 %	100.0 %
OAEM	4.1 %	1.7 %	-
Substandard/doubtful	-	6.2 %	-
	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
Farm-related business			
Acceptable	72.5 %	63.6 %	59.2 %
OAEM	-	-	-
Substandard/doubtful	27.5 %	36.4 %	40.8 %
	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
Communication			
Acceptable	94.7 %	100.0 %	100.0 %
OAEM	5.3 %	-	-
Substandard/doubtful	-	-	-
	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
Energy			
Acceptable	94.2 %	76.0 %	72.2 %
OAEM	-	-	-
Substandard/doubtful	5.8 %	24.0 %	27.8 %
	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
Water and waste-water			
Acceptable	100.0 %	100.0 %	100.0 %
OAEM	-	-	-
Substandard/doubtful	-	-	-
	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
Rural residential real estate			
Acceptable	58.8 %	58.1 %	57.6 %
OAEM	33.4 %	33.6 %	33.7 %
Substandard/doubtful	7.8 %	8.3 %	8.7 %
	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
Agricultural export finance			
Acceptable	100.0 %	100.0 %	100.0 %
OAEM	-	-	-
Substandard/doubtful	-	-	-
	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
Mission-related investments			
Acceptable	100.0 %	100.0 %	100.0 %
OAEM	-	-	-
Substandard/doubtful	-	-	-
	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
Total Loans			
Acceptable	98.1 %	98.4 %	97.6 %
OAEM	0.7 %	0.4 %	0.8 %
Substandard/doubtful	1.2 %	1.2 %	1.6 %
	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

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

	<b>December 31, 2023</b>	December 31, 2022	December 31, 2021
<b>Nonaccrual loans:</b>			
Real estate mortgage	\$ 2,445,690	\$ 4,577,106	\$ 5,631,422
Production and intermediate-term	227,141	1,174,329	2,108,750
Agribusiness	12,148,540	4,306,286	-
Energy	295,752	445,453	577,686
Total nonaccrual loans	<u>15,117,123</u>	<u>10,503,174</u>	<u>8,317,858</u>
<b>Accruing loans 90 days or more past due:</b>			
Real estate mortgage	-	144,591	-
Production and intermediate-term	5	31	20
Agribusiness	-	1,454,369	-
Total accruing loans 90 days or more past due	<u>5</u>	<u>1,598,991</u>	<u>20</u>
<b>Other property owned</b>	-	-	-
<b>Total nonperforming assets</b>	<u><u>\$ 15,117,128</u></u>	<u><u>\$ 12,102,165</u></u>	<u><u>\$ 8,317,878</u></u>
Nonaccrual loans as a percentage of total loans	0.64%	0.47%	0.41%
Nonperforming assets as a percentage of total loans and other property owned	0.64%	0.55%	0.41%
Nonperforming assets as a percentage of capital	5.32%	4.61%	3.53%

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

	<b>December 31, 2023</b>			<b>Interest Income Recognized</b>
	<b>Amortized Cost with Allowance</b>	<b>Amortized Cost without Allowance</b>	<b>Total</b>	<b>For the Year Ended December 31, 2023</b>
<b>Nonaccrual loans:</b>				
Real estate mortgage	\$ -	\$ 2,445,690	\$ 2,445,690	\$ 59,639
Production and intermediate-term	-	227,141	227,141	38,392
Agribusiness	-	12,148,540	12,148,540	6,465
Energy	295,752	-	295,752	-
<b>Total nonaccrual loans</b>	<u><u>\$ 295,752</u></u>	<u><u>\$ 14,821,371</u></u>	<u><u>\$ 15,117,123</u></u>	<u><u>\$ 104,496</u></u>

Accrued interest receivable on loans of \$22,243,153 at December 31, 2023, have been excluded from the amortized cost of loans and reported separately in the Consolidated Balance Sheet. The Association wrote off accrued interest receivable of \$289,831 during 2023.

The following tables provide an aging analysis of past due loans at amortized cost by portfolio segment as of December 31, 2023:

December 31, 2023:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Loans > 90 Days and Accruing
Real estate mortgage	\$ 6,029,423	\$ -	\$ 6,029,423	\$ 1,835,278,793	\$ 1,841,308,216	\$ -
Production and intermediate-term	82,713	227,146	309,859	320,278,813	320,588,672	5
Processing and marketing	-	-	-	91,855,671	91,855,671	-
Farm-related business	-	-	-	44,182,696	44,182,696	-
Loans to cooperatives	-	-	-	19,300,676	19,300,676	-
Communication	-	-	-	20,490,514	20,490,514	-
Water and waste-water	-	-	-	14,902,097	14,902,097	-
Agricultural export finance	-	-	-	5,587,816	5,587,816	-
Energy	-	-	-	5,106,807	5,106,807	-
Rural residential real estate	93,892	-	93,892	908,473	1,002,365	-
Mission-related investments	-	-	-	744,639	744,639	-
<b>Total</b>	<b>\$ 6,206,028</b>	<b>\$ 227,146</b>	<b>\$ 6,433,174</b>	<b>\$ 2,358,636,995</b>	<b>\$ 2,365,070,169</b>	<b>\$ 5</b>

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

December 31, 2022:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Loans > 90 Days and Accruing
Real estate mortgage	\$ 6,483,859	\$ 156,780	\$ 6,640,639	\$ 1,807,972,579	\$ 1,814,613,218	\$ 144,591
Production and intermediate-term	619,803	31	619,834	261,172,301	261,792,135	31
Processing and marketing	1,301,882	334,156	1,636,038	67,964,141	69,600,179	-
Farm-related business	-	-	-	36,747,924	36,747,924	-
Loans to cooperatives	-	1,454,368	1,454,368	21,695,143	23,149,511	1,454,369
Communication	-	-	-	16,324,645	16,324,645	-
Water and waste-water	-	-	-	7,080,959	7,080,959	-
Agricultural export finance	-	-	-	3,472,533	3,472,533	-
Energy	-	-	-	1,866,118	1,866,118	-
Rural residential real estate	89,670	-	89,670	984,652	1,074,322	-
Mission-related investments	-	-	-	803,664	803,664	-
<b>Total</b>	<b>\$ 8,495,214</b>	<b>\$ 1,945,335</b>	<b>\$ 10,440,549</b>	<b>\$ 2,226,084,659</b>	<b>\$ 2,236,525,208</b>	<b>\$ 1,598,991</b>

December 31, 2021:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Loans > 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	-
<b>Total</b>	<b>\$ 4,622,074</b>	<b>\$ 1,297,025</b>	<b>\$ 5,919,099</b>	<b>\$ 2,021,681,708</b>	<b>\$ 2,027,600,807</b>	<b>\$ 20</b>

## Loan Modifications to Borrowers Experiencing Financial Difficulties

Upon adoption of the CECL accounting guidance, creditors are required to disclose specific modifications with borrowers that are experiencing financial difficulty.

The following table shows the amortized cost basis at the end of the reporting period for loan modifications granted to borrowers experiencing financial difficulty during 2023, disaggregated by loan type and type of modification granted.

Loan Type	Year Ended December 31, 2023	
	Term Extension	Percentage of Total Loans
Production and intermediate-term	\$ 218,572	0.01%

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty during 2023 was \$1,749 at December 31, 2023.

There is no financial effect of the modification made to borrowers experiencing financial difficulty during 2023.

There were no loans to borrowers experiencing financial difficulty that received a modification during 2023 and that defaulted during 2023.

The following table sets forth an aging analysis of loans to borrowers experiencing financial difficulty that were modified on or after January 1, 2023, the date of the adoption of the guidance noted above, through December 31, 2023:

	Payment Status of Loans Modified in the Past 12 Months		
	Current	30-89 Days Past Due	90 Days or More Past Due
Production and intermediate-term	\$ 218,572	\$ -	\$ -

There were no commitments to lend to borrowers experiencing financial difficulty whose loans have been modified at December 31, 2023.

## Troubled Debt Restructurings

Prior to January 1, 2023, the adoption of updated FASB guidance on loan modifications, a restructuring of a loan constituted a troubled debt restructuring, also known as formally restructured, if the creditor for economic or legal reasons related to the borrower's financial difficulties granted a concession to the borrower that it would not otherwise consider. Concessions varied by program and were borrower-specific and could include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may have been forgiven. When a restructured loan constituted a troubled debt restructuring, these loans were included within impaired loans under nonaccrual or accruing restructured loans.

There were no troubled debt restructurings that occurred during the 12 months ending December 31, 2022 and 2021.

There were no additional commitments to lend to borrowers whose loans have been modified in TDRs at December 31, 2022 and at December 31, 2021.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end.

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Troubled debt restructurings:				
Real estate mortgage	\$ 35,983	\$ 85,984	\$ 35,983	\$ 85,984
Mission-related investments	-	752,742	-	-
<b>Total</b>	<b>\$ 35,983</b>	<b>\$ 838,726</b>	<b>\$ 35,983</b>	<b>\$ 85,984</b>

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

### Allowance for Credit Losses

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

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

	Production and Intermediate-Term		Agribusiness	Communications	Energy	Water and Wastewater	Rural Residential Real Estate	Agricultural Export Finance	Mission-Related Investments	Total
	Real Estate Mortgage									
<b>Allowance for Credit Losses on Loans:</b>										
Balance at December 31, 2022	\$ 1,579,691	\$ 628,543	\$ 712,761	\$ 14,214	\$ 105,928	\$ 6,166	\$ 935	\$ 3,024	\$ 700	\$ 3,051,962
Cumulative effect of a change in accounting principle	2,027,349	(291,909)	-	-	-	-	-	-	-	1,735,440
Balance at January 1, 2023	3,607,040	336,634	712,761	14,214	105,928	6,166	935	3,024	700	4,787,402
Recoveries	-	30,547	-	-	-	-	-	-	-	30,547
Provision for loan losses (loan loss reversal)	(1,790,763)	(77,982)	(559,585)	5,938	3,381	8,440	50	2,462	32	(2,408,027)
Balance at December 31, 2023	<b>\$ 1,816,277</b>	<b>\$ 289,199</b>	<b>\$ 153,176</b>	<b>\$ 20,152</b>	<b>\$ 109,309</b>	<b>\$ 14,606</b>	<b>\$ 985</b>	<b>\$ 5,486</b>	<b>\$ 732</b>	<b>\$ 2,409,922</b>
<b>Allowance for Credit Losses on Unfunded Commitments:</b>										
Balance at December 31, 2022	\$ 334	\$ 151,538	\$ 39,974	\$ 1,007	\$ -	\$ 3,391	\$ -	\$ 7,148	\$ -	\$ 203,392
Cumulative effect of a change in accounting principle	(49)	(22,131)	(5,838)	(147)	-	(495)	-	(1,044)	-	(29,704)
Balance at January 1, 2023	285	129,407	34,136	860	-	2,896	-	6,104	-	173,688
Provision for unfunded commitments	438	(31,857)	(10,391)	(142)	-	(2,784)	-	(1,653)	-	(46,389)
Balance at December 31, 2023	<b>\$ 723</b>	<b>\$ 97,550</b>	<b>\$ 23,745</b>	<b>\$ 718</b>	<b>\$ -</b>	<b>\$ 112</b>	<b>\$ -</b>	<b>\$ 4,451</b>	<b>\$ -</b>	<b>\$ 127,299</b>

The allowance for credit losses as of December 31, 2023, was \$2,409,922, reflecting a decrease of \$642,040 from December 31, 2022. Excluding the impact of the adoption of the CECL accounting guidance of \$1,735,440 as previously discussed, the decrease was driven by the elimination of specific reserves of \$2,100,000 as well as overall improvement in credit quality.

The economic scenarios utilized in the December 31, 2023, estimate for the allowance for credit losses were based on the following scenarios: a baseline scenario, which represents a relatively stable economic environment; a downside scenario reflecting an economic recession during 2024; and an upside scenario that considers the potential for economic improvement relative to the baseline scenario.

## Allowance for Credit Losses - Prior to CECL Adoption

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate- Term	Agribusiness	Communications	Energy	Water and Waste-water	Rural Residential Real Estate	Agricultural Export Finance	Mission- Related Investments	Total
Allowance for Credit Losses:										
Balance at										
December 31, 2021	\$ 1,899,626	\$ 761,376	\$ 145,857	\$ 18,606	\$ 162,348	\$ 3,577	\$ 1,316	\$ 4,724	\$ 19,106	\$ 3,016,536
Recoveries	20,349	868	-	-	-	-	-	-	-	21,217
Provision for loan losses	(337,924)	(172,221)	566,904	(4,392)	(56,420)	2,589	(381)	(1,700)	(18,406)	(21,951)
Other	(2,360)	38,520	-	-	-	-	-	-	-	36,160
Balance at										
December 31, 2022	\$ 1,579,691	\$ 628,543	\$ 712,761	\$ 14,214	\$ 105,928	\$ 6,166	\$ 935	\$ 3,024	\$ 700	\$ 3,051,962

	Real Estate Mortgage	Production and Intermediate- Term	Agribusiness	Communications	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	\$ 1,899,626	\$ 761,376	\$ 145,857	\$ 18,606	\$ 162,348	\$ 3,577	\$ 1,316	\$ 4,724	\$ 19,106	\$ 3,016,536

## NOTE 5 – LEASES:

The components of lease expense were as follows:

	Classification	2023	2022	2021
Operating lease cost	Right-of-use asset	\$ 258,437	\$ 304,440	\$ 142,642
Short-term lease cost		52,850	14,400	14,400
Finance lease cost				
Amortization of right-of-use assets		(33,892)	(108,092)	(383)
Net lease cost		\$ 277,395	\$ 210,748	\$ 156,659

Other information related to leases was as follows:

	2023	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows for operating leases	\$ 224,545	\$ 196,348	\$ 142,259
Right-of-use assets obtained in exchange for new lease obligations:			
Operating leases	\$ 258,437	\$ 304,440	\$ 142,642

Lease term and discount rate are as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Weighted average remaining lease term in years			
Operating leases	<b>6.90</b>	7.33	8.74
Weighted average discount rate			
Operating leases	<b>5.53%</b>	4.01%	1.16%

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

	<u>Operating Leases</u>
2024	\$ 197,479
2025	165,381
2026	96,646
2027	70,253
2028	96,400
Thereafter	308,022
Total lease payments	<u>\$ 934,181</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 8.2 percent, 8.2 percent and 7.5 percent of the issued stock of the Bank as of December 31, 2023, 2022 and 2020. As of those dates, the Bank's assets totaled \$37.3 billion, \$36.0 billion and \$33.1 billion and members' equity totaled \$1.7 billion, \$1.6 billion and \$2.0 billion. The Bank's earnings were \$199.9 million, \$269.9 million and \$254.6 million during 2023, 2022 and 2021.

#### **NOTE 7 — PREMISES AND EQUIPMENT:**

Premises and equipment consisted of the following at December 31:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Land and improvements	\$ 2,218,870	\$ 2,218,870	\$ 2,431,558
Building and improvements	<b>18,213,037</b>	14,612,081	12,870,746
Furniture and equipment	<b>1,263,846</b>	1,326,021	1,200,331
Computer equipment and software	<b>842,155</b>	820,201	825,492
Automobiles	<b>2,490,475</b>	2,032,861	1,778,262
Construction in progress	-	3,254,385	1,458,527
	<b>25,028,383</b>	24,264,419	20,564,916
Accumulated depreciation	<b>(6,971,663)</b>	(6,368,764)	(5,418,663)
Total	<u><b>\$ 18,056,720</b></u>	<u>\$ 17,895,655</u>	<u>\$ 15,146,253</u>

The Association leases office space in Dallas, Rockwall, Laredo, McAllen, Prosper and Taft. Lease expense was \$262,995, \$196,348 and \$142,259 for 2023, 2022 and 2021, 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 contracts are considered

operating leases. Minimum annual lease payments for the next five years total \$934,181. See Note 5, “Leases,” for further details.

**NOTE 8 — OTHER ASSETS AND OTHER LIABILITIES:**

Other assets comprised the following at December 31:

	<u>2023</u>	2022	<u>2021</u>
Intangible assets	\$ 2,636,617	\$ 1,601,427	\$ 1,779,569
Accounts receivable - other	1,187,297	27,209	4,875,480
Right-of-use asset - building leases	758,815	934,186	1,018,551
Nonqualified deferred compensation	583,740	475,408	585,429
Prepaid expenses	354,508	310,485	47,059
Farmer Mac stock	8,000	8,000	8,000
Miscellaneous assets	6,467	6,466	6,466
Total	<u>\$ 5,535,444</u>	<u>\$ 3,363,181</u>	<u>\$ 8,320,554</u>

Other liabilities comprised the following at December 31:

	<u>2023</u>	2022	<u>2021</u>
Operating accounts payable	\$ 9,762,736	\$ 4,188,225	\$ 8,253,167
Insurance payable	3,500,729	3,685,870	2,374,492
Post-retirement benefits liability	3,394,141	3,373,898	4,520,106
Accrued annual leave	1,151,610	950,879	869,426
Lease liability - building leases	758,815	934,186	1,018,551
Allowance on unfunded loans	127,299	203,392	239,552
Miscellaneous liabilities	57,166	30,805	50,913
Federal income taxes payable	-	(1,791)	-
Total	<u>\$ 18,752,496</u>	<u>\$ 13,365,464</u>	<u>\$ 17,326,207</u>

The Association owns four crop insurance agencies within its territory. One agency was purchased in April 2023 for \$1,500,000, 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 four purchases are classified as contractual relationship intangible assets based on the expected future benefit of customer contracts. Amortization of \$264,809 was recorded for 2023 and amortization of \$264,809 per year is estimated over the five succeeding fiscal years. At December 31, 2023, the balance of these intangible assets after amortization reported was \$2,636,617.

**NOTE 9 — 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, plus a Bank determined spread. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2026, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days’ prior written notice, or in all other circumstances, upon giving the Bank 120 days’ prior written notice.



The total amount and the weighted average interest rate of the Association's direct loan from the Bank at December 31, 2023, 2022 and 2021, was \$2,120,945,005 at 3.38 percent, \$1,991,062,303 at 2.33 percent and \$1,804,831,571 at 1.91 percent, respectively.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2023, 2022 and 2021, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2023, was \$2,374,653,569, 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 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, 2023, 2022 and 2021, the Association was not subject to remedies associated with the covenants in the general financing agreement.

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

#### **NOTE 10 — 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 have identical rights and attributes. For this reason, the conversion of stock pursuant to past 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 past 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.

The Association’s bylaws generally permit stock and participation certificates to be retired at the discretion of the board of directors and in accordance with capitalization plans, provided prescribed capital standards have been met. At December 31, 2023, all prescribed standards were exceeded. No significant changes in capital that would affect the normal retirement of stock are anticipated.

Class B capital stock and participation certificates are transferable to other customers who are eligible to hold such class as long as minimum regulatory capital requirements are met.

If needed to meet regulatory capital adequacy requirements, the board of directors of the Association may increase the percentage of stock requirement for each borrower up to a maximum of 10 percent of the loan amount.

Each owner of Class B capital stock is entitled to a single vote, while participation certificates provide no voting rights to their owners.

Within two years of repayment of a loan, the Association’s capitalization bylaws require the conversion of any borrower’s outstanding Class B stock to Class A 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 Class A shares is made solely at the discretion of the Association’s board of directors. At December 31, 2023, 2022 and 2021, the Association had \$256,285, \$62,965 and \$14,415, respectively, of Class A stock.

All borrower stock is at-risk. As such, losses that result in impairment of capital stock or participation certificates shall be borne on a pro rata basis by all holders of all classes of capital stock and participation certificates. In the event of liquidation of the Association, capital stock and participation certificates would be utilized as necessary to satisfy any remaining obligations in excess of the amounts realized on the sale or liquidation of assets. Any excess of the amounts realized on the sale or liquidation of assets over the Association’s obligations to external parties and to the Bank would be distributed to the Association’s stockholders.

Patronage distributions may be paid on the capital stock and participation certificates of the Association, as the board of directors may determine by resolution, subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as allocated and unallocated retained earnings. The following patronage distributions were declared and paid in 2023, 2022 and 2021, respectively:

<b><u>Date Declared</u></b>	<b><u>Date Paid or Payable</u></b>	<b><u>Total Patronage</u></b>
December 2023	April 2024	\$ 21,969,124
December 2023	December 2023	\$ 975,507
December 2022	April 2023	\$ 20,539,000
December 2022	December 2022	\$ 1,298,092
December 2021	April 2022	\$ 19,848,928
December 2021	December 2021	\$ 8,655,583
December 2020	April 2021	\$ 21,835,271

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, 2023, 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, 2023:

<b>Risk-weighted:</b>	<b>Regulatory Minimums</b>	<b>Regulatory Minimums with Buffer</b>	<b>As of December 31, 2023</b>
Common equity tier 1 ratio	4.50%	7.00%	<b>13.16%</b>
Tier 1 capital ratio	6.00%	8.50%	<b>13.16%</b>
Total capital ratio	8.00%	10.50%	<b>13.29%</b>
Permanent capital ratio	7.00%	7.00%	<b>13.17%</b>
<b>Non-risk-weighted:</b>			
Tier 1 leverage ratio	4.00%	5.00%	<b>10.82%</b>
UREE leverage ratio	1.50%	1.50%	<b>8.36%</b>

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 which 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 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System 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 non-cumulative perpetual preferred stock, divided by average risk-weighted assets.
- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System 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 stock 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 revolving 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 regulatory capital ratios, based on 90-day average balances, were as follows at December 31, 2023:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
<b>Numerator:</b>				
Unallocated retained earnings	\$ 124,874,887	\$ 124,874,887	\$ 124,874,887	\$ 124,874,887
Paid-in capital	47,596,495	47,596,495	47,596,495	47,596,495
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	4,609,542	4,609,542	4,609,542	4,609,542
Allocated equities:				
Allocated equities held $\geq 7$	53,165,664	53,165,664	53,165,664	53,165,664
Nonqualified allocated equities not subject to retirement	64,937,342	64,937,342	64,937,342	64,937,342
Allowance for loan losses and reserve for credit losses subject to certain limitations*	-	-	2,501,043	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(38,589,010)	(38,589,010)	(38,589,010)	(38,589,010)
Other regulatory required deductions	(2,886,715)	(2,886,715)	(2,886,715)	(2,886,715)
	<b>\$ 253,708,205</b>	<b>\$ 253,708,205</b>	<b>\$ 256,209,248</b>	<b>\$ 253,708,205</b>
<b>Denominator:</b>				
Risk-adjusted assets excluding allowance	\$ 1,969,583,352	\$ 1,969,583,352	\$ 1,969,583,352	\$ 1,969,583,352
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(41,475,725)	(41,475,725)	(41,475,725)	(41,475,725)
Allowance for loan losses	-	-	-	(2,412,593)
	<b>\$ 1,928,107,627</b>	<b>\$ 1,928,107,627</b>	<b>\$ 1,928,107,627</b>	<b>\$ 1,925,695,034</b>
<b>Calculated Ratio</b>	<b>13.16%</b>	<b>13.16%</b>	<b>13.29%</b>	<b>13.17%</b>

\*Capped at 1.25 percent of risk-weighted assets and inclusive of the reserve for unfunded commitments.

The components of the Association's non-risk weighted capital, based on 90-day average balances, were as follows at December 31, 2023:

	<b>Tier 1 leverage ratio</b>	<b>UREE leverage ratio</b>
<b>Numerator:</b>		
Unallocated retained earnings	\$ 124,874,887	\$ 124,874,887
Paid-in capital	47,596,495	47,596,495
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	4,609,542	-
Allocated equities:		
Allocated equities held $\geq 7$	53,165,664	-
Nonqualified allocated equities not subject to retirement	64,937,342	64,937,342
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(38,589,010)	(38,589,010)
Other regulatory required deductions	(2,886,715)	(2,886,715)
	<u>\$ 253,708,205</u>	<u>\$ 195,932,999</u>
<b>Denominator:</b>		
Total Assets	\$ 2,394,111,071	\$ 2,394,111,071
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(49,277,336)	(49,277,336)
	<u>\$ 2,344,833,735</u>	<u>\$ 2,344,833,735</u>
<b>Calculated Ratio</b>	<b>10.82%</b>	<b>8.36%</b>

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>2023</u>	<u>2022</u>	<u>2021</u>
Class A stock	51,257	12,593	2,883
Class B stock	868,571	897,675	863,327
Participation certificates	4,967	5,769	6,769
Total	<u>924,795</u>	<u>916,037</u>	<u>872,979</u>

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

#### Accumulated Other Comprehensive Income (Loss)

<b>December 31, 2023</b>	<u>Net of Tax</u>
<b>Nonpension postretirement benefits</b>	<u>\$ 822,824</u>
December 31, 2022	<u>Net of Tax</u>
Nonpension postretirement benefits	<u>\$ 861,603</u>
December 31, 2021	<u>Net of Tax</u>
Nonpension postretirement benefits	<u>\$ (315,716)</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 Consolidated Statement of Comprehensive Income for the year ended December 31:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Accumulated other comprehensive income (loss) at January 1	\$ 861,603	\$ (315,716)	\$ (580,789)
Actuarial gains	37,886	1,199,035	262,337
Amortization of prior service credit included in salaries and employee benefits	(21,716)	(21,716)	(21,716)
Amortization of actuarial (gain) loss included in salaries and employee benefits	(54,949)	-	24,452
Other comprehensive income (loss), net of tax	<u>(38,779)</u>	<u>1,177,319</u>	<u>265,073</u>
Accumulated other comprehensive income (loss) at December 31	<u>\$ 822,824</u>	<u>\$ 861,603</u>	<u>\$ (315,716)</u>

**NOTE 11 — INCOME TAXES:**

The provision for (benefit from) income taxes follows for the years ended December 31:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Current:			
Federal	\$ 41,950	\$ 37,522	\$ 110,844
Deferred:			
Federal	93,440	35,984	512,384
Total provision for (benefit from) income taxes	<u>\$ 135,390</u>	<u>\$ 73,506</u>	<u>\$ 623,228</u>

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Federal tax at statutory rate	\$ 9,853,294	\$ 9,854,453	\$ 9,689,521
Effect of nontaxable FLCA subsidiary	(8,214,421)	(8,391,865)	(8,243,383)
Patronage distributions	(1,543,706)	(1,312,500)	(826,560)
Other	40,223	(76,582)	3,650
Provision for (benefit from) income taxes	<u>\$ 135,390</u>	<u>\$ 73,506</u>	<u>\$ 623,228</u>

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<u>Deferred Tax Assets</u>			
Allowance for loan losses	\$ 70,130	\$ 163,570	\$ 199,554
Gross deferred tax assets	<u>\$ 70,130</u>	<u>\$ 163,570</u>	<u>\$ 199,554</u>

The calculation of tax assets and liabilities involves various management estimates and assumptions as to the future taxable earnings. At December 31, 2023, non-patronage income is expected to be 10.38 percent of total taxable income (before patronage) and patronage income retained is expected to be retained 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 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 12 — 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 multi-employer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (Bank and associations). No portion of any surplus assets is available to any participating employer. As a result, participating employers of the DB Plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. DB Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon District combination only. The Association records current contributions to the DB Plan as an expense in the current year.

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

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

The Association elected to participate in the District’s nonqualified contribution 401(k) plan, although participation from qualifying employees was limited. Contributions of \$42,028, \$60,331 and \$132,302 were made to this plan for the years ended December 31, 2023, 2022 and 2021. There were no payments made from the Supplemental 401(k) Plan to active employees during 2023, 2022 and 2021.

The DB Plan is non-contributory and benefits are based on salary and years of service. The legal name of the plan is Farm Credit Bank of Texas Pension Plan; its employer identification number is 74-1110170. The DB Plan is not subject to any contractual expiration dates. The DB Plan’s funding policy is to fund current year benefits expected to be earned by covered employees plus an amount to improve the accumulated benefit obligation funded status by a percentage approved by the plan sponsor. The DB Plan sponsor is the board of the Farm Credit Bank of Texas. The “projected unit credit” actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan, to facilitate reorganization and/or restructuring. The actuarial present value of vested and nonvested accumulated benefit obligation exceeded the net assets of the DB Plan as of December 31, 2023.

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

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

The following table includes additional information regarding the funded status of the DB Plan, the Association’s contributions, and the percentage of Association contribution to total plan contributions for the years ended December 31, 2023, 2022 and 2021:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Funded status of plan	<b>73.3%</b>	70.9%	70.5%
Association's contribution	<b>\$ 309,219</b>	\$ 425,097	\$ 632,970
Percentage of Association's contribution to total contributions	<b>4.7%</b>	4.1%	4.2%

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 74.1 percent, 71.8 percent and 72.0 percent at December 31, 2023, 2022 and 2021, respectively.

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



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

### Retiree Welfare Benefit Plans

Disclosure Information Related to Retirement Benefits	2023	2022	2021
<b>Change in Accumulated Postretirement Benefit Obligation</b>			
Accumulated postretirement benefit obligation, beginning of year	\$ 3,373,898	\$ 4,520,106	\$ 4,721,546
Service cost	27,589	45,320	59,146
Interest cost	171,310	139,834	130,116
Plan participants' contributions	30,606	30,083	33,971
Actuarial loss (gain)	(37,886)	(1,199,035)	(262,337)
Benefits paid	(171,376)	(162,410)	(162,336)
Accumulated postretirement benefit obligation, end of year	\$ 3,394,141	\$ 3,373,898	\$ 4,520,106
<b>Change in Plan Assets</b>			
Company contributions	\$ 140,770	\$ 132,327	\$ 128,365
Plan participants' contributions	30,606	30,083	33,971
Benefits paid	(171,376)	(162,410)	(162,336)
Plan assets at fair value, end of year	\$ -	\$ -	\$ -
Funded status of the plan	\$ (3,394,141)	\$ (3,373,898)	\$ (4,520,106)
<b>Amounts Recognized on the Balance Sheets</b>			
Other liabilities	\$ (3,394,141)	\$ (3,373,898)	\$ (4,520,106)
<b>Amounts Recognized in Accumulated Other Comprehensive Income</b>			
Net actuarial loss (gain)	\$ (781,346)	\$ (798,409)	\$ 400,626
Prior service cost (credit)	(41,478)	(63,194)	(84,910)
Total	\$ (822,824)	\$ (861,603)	\$ 315,716
<b>Weighted-Average Assumptions Used to Determine Obligations at Year End</b>			
Measurement date	<u>12/31/2023</u>	<u>12/31/2022</u>	<u>12/31/2021</u>
Discount rate	5.50%	5.20%	3.15%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	7.50%/8.40%	7.20%/7.70%	6.80%/6.00%
Health care cost trend rate assumed for next year - Rx	7.50%	7.20%	6.80%
Ultimate health care cost trend rate	4.50%	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2034	2031	2030

<b>Total Cost</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
Service cost	\$ 27,589	\$ 45,320	\$ 45,320
Interest cost	171,310	139,834	139,834
Amortization of:			
Unrecognized prior service cost	(21,716)	(21,716)	(21,716)
Unrecognized net loss (gain)	(54,949)	-	-
Net postretirement benefit cost	\$ 122,234	\$ 163,438	\$ 163,438

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

Net actuarial loss (gain)	\$ (37,886)	\$ (1,199,035)	\$ (262,337)
Amortization of net actuarial loss (gain)	54,949	-	(24,452)
Prior service cost (credit)	-	-	-
Amortization of prior service cost	21,716	21,716	21,716
Total recognized in other comprehensive income	\$ 38,779	\$ (1,177,319)	\$ (265,073)

**AOCI Amounts Expected to be Amortized Into Expense in 2024**

Unrecognized prior service cost	\$ (21,716)	\$ (21,716)	\$ (21,716)
Unrecognized net loss (gain)	(57,171)	(54,949)	-
Total	\$ (78,887)	\$ (76,665)	\$ (21,716)

**Weighted-Average Assumptions Used to Determine Benefit Cost**

	<u>12/31/2022</u>	<u>12/31/2021</u>	<u>12/31/2020</u>
Measurement date			
Discount rate	5.20%	3.15%	2.80%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	7.20%/7.70%	6.80%/6.00%	6.90%/6.40%
Health care cost trend rate assumed for next year - Rx	7.20%	6.80%	6.90%
Ultimate health care cost trend rate	4.50%	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2031	2030	2029

**Expected Future Cash Flows**

**Expected Benefit Payments (net of employee contributions)**

	<b>2023</b>	<b>2022</b>	<b>2021</b>
Fiscal 2024	\$ 155,844	\$ 168,597	\$ 185,438
Fiscal 2025	168,062	178,816	193,426
Fiscal 2026	175,184	182,446	193,672
Fiscal 2027-2031	192,902	198,078	1,103,525
Fiscal 2028-2032	210,904	1,088,676	-
Fiscal 2029-2033	1,123,197	-	-

**Expected Contributions**

Fiscal 2024	\$ 155,844	\$ 168,597	\$ 185,438
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**NOTE 13 — RELATED PARTY TRANSACTIONS:**

Directors of the Association, except for any director-elected directors, are required to be borrowers/stockholders of the Association. Also, in the ordinary course of business, the Association may enter into loan origination or servicing transactions with its officers, relatives of officers and directors, or with organizations with which such persons are associated. Such loans are subject to special approval requirements contained in FCA regulations and are made on the same terms, including interest rates, amortization schedule and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons at December 31, 2023, 2022 and 2021 for the Association amounted to \$42,661,897, \$44,375,083 and \$34,083,701. During 2023, 2022 and 2021, \$31,360,179, \$35,617,310 and \$34,776,324 of new loans were made, and repayments totaled \$34,374,204, \$30,877,139 and \$36,773,120, respectively. In the opinion of management, no such loans outstanding at December 31, 2023, 2022 and 2021 involved more than a normal risk of collectability.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems and accounting services and allocations of expenses incurred by the Bank and passed through to the District associations, such as FCSIC expenses. The Bank charges the individual District associations directly for these services based on each association's proportionate usage. These expenses totaled \$3,791,638, \$1,222,048 and \$1,794,222 in 2023, 2022 and 2021, respectively.

The Association received patronage payments from the Bank totaling \$8,936,478, \$15,805,180 and \$13,972,755 during 2023, 2022 and 2021, respectively.

**NOTE 14 — 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, 2023	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
<b>Assets:</b>			
<b>Loans</b>	\$ -	\$ -	\$ 191,449
December 31, 2022	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
Assets:			
Loans	\$ -	\$ -	\$ 4,047,437
December 30, 2021	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
Assets:			
Loans	\$ -	\$ -	\$ 435,594

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

**December 31, 2023**  
**Fair Value Measurement Using**

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets:</b>					
Cash	\$ 22,851	\$ 22,851	\$ -	\$ -	\$ 22,851
Investments	301,055	-	-	291,971	291,971
Net loans	2,362,614,312	-	-	2,222,845,288	2,222,845,288
<b>Total Assets</b>	<b>\$ 2,362,938,218</b>	<b>\$ 22,851</b>	<b>\$ -</b>	<b>\$ 2,223,137,259</b>	<b>\$ 2,223,160,110</b>
<b>Liabilities:</b>					
Note payable to Bank	\$ 2,120,945,005	\$ -	\$ -	\$ 1,995,517,275	\$ 1,995,517,275

**December 31, 2022**  
**Fair Value Measurement Using**

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets:</b>					
Cash	\$ 26,159	\$ 26,159	\$ -	\$ -	\$ 26,159
Investments	424,737	-	-	408,578	408,578
Net loans	2,210,779,072	-	-	2,012,827,714	2,012,827,714
<b>Total Assets</b>	<b>\$ 2,211,229,968</b>	<b>\$ 26,159</b>	<b>\$ -</b>	<b>\$ 2,013,236,292</b>	<b>\$ 2,013,262,451</b>
<b>Liabilities:</b>					
Note payable to Bank	\$ 1,991,062,303	\$ -	\$ -	\$ 1,812,722,596	\$ 1,812,722,596

**December 31, 2021**  
**Fair Value Measurement Using**

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets:</b>					
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
<b>Total Assets</b>	<b>\$ 2,012,567,372</b>	<b>\$ 49,663</b>	<b>\$ -</b>	<b>\$ 1,996,960,052</b>	<b>\$ 1,997,009,715</b>
<b>Liabilities:</b>					
Note payable to Bank	\$ 1,804,831,571	\$ -	\$ -	\$ 1,790,705,972	\$ 1,790,705,972

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.

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

### *Other Property Owned*

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

## **NOTE 15 — COMMITMENTS AND CONTINGENCIES:**

In addition to those commitments and contingencies discussed in Note 2, “Summary of Significant Accounting Policies,” the Association is involved in various legal proceedings in the ordinary course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under

conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2023, \$290,278,573 of commitments were outstanding.

Since 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 Sheet 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 16 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED):**

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

	2023				
	First	Second	Third	Fourth	Total
Net interest income	\$ 14,790	\$ 14,897	\$ 15,025	\$ 15,468	\$ 60,180
(Provision for) reversal of loan losses	51	143	2,281	(21)	2,454
Noninterest income (expense), net	(3,472)	(2,140)	(5,126)	(5,111)	(15,849)
Net income	<u>\$ 11,369</u>	<u>\$ 12,900</u>	<u>\$ 12,180</u>	<u>\$ 10,336</u>	<u>\$ 46,785</u>

	2022				
	First	Second	Third	Fourth	Total
Net interest income	\$ 13,487	\$ 14,053	\$ 14,115	\$ 14,192	\$ 55,847
(Provision for) reversal of loan losses	(65)	63	255	(231)	22
Noninterest income (expense), net	(2,621)	(1,317)	(2,241)	(2,871)	(9,050)
Net income	<u>\$ 10,801</u>	<u>\$ 12,799</u>	<u>\$ 12,129</u>	<u>\$ 11,090</u>	<u>\$ 46,819</u>

	2021				
	First	Second	Third	Fourth	Total
Net interest income	\$ 11,193	\$ 11,844	\$ 12,152	\$ 12,524	\$ 47,713
(Provision for) 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	<u>\$ 9,691</u>	<u>\$ 13,706</u>	<u>\$ 11,675</u>	<u>\$ 10,445</u>	<u>\$ 45,517</u>

**NOTE 17 — SUBSEQUENT EVENTS:**

The Association has evaluated subsequent events through March 8, 2024, the date the financial statements were available to be issued. Effective February 27, 2024, a Letter of Intent was entered into by the boards of directors of the Association and Heritage Land Bank, ACA. This Letter of Intent set the framework for a merger of the two associations, subject to completion of satisfactory due diligence and necessary regulatory and stockholder approval.

As of December 31, 2023, Heritage Land Bank, ACA, had approximately \$733 million of total assets and serves customers in 16 North and East Texas counties. Both Texas Farm Credit Services and Heritage Land Bank, ACA, receive wholesale funding from the Farm Credit Bank of Texas.

There have been no other material subsequent events through March 8, 2024.

## **DISCLOSURE INFORMATION AND INDEX**

(Unaudited)

*Disclosures Required by Farm Credit Administration Regulations*

### **DESCRIPTION OF BUSINESS**

The description of the territory served, the persons eligible to borrow, the types of lending activities engaged in and the financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference from Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report.

The descriptions of significant developments that had or could have a material impact on earnings, interest rates to borrowers, patronage, or dividends and acquisitions or dispositions of material assets, changes in the reporting entity, changes in patronage policies or practices and financial assistance provided by or to the Association through loss sharing or capital preservation agreements or from any other source, if any, required to be disclosed in this section are incorporated herein by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

### **DESCRIPTION OF PROPERTY**

Texas Farm Credit Services (the Association) serves its 100-county territory through its main administrative and lending office at 545 South Highway 77, Robstown, Texas 78380. Additionally, there are 21 branch lending offices, three administrative offices, two 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 Gainesville and McAllen. The Association leases offices for its lending operations in Dallas, 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 10 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 9, "Note Payable to the Bank," Note 12, "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 15 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, Texas 78720-2590 or calling (512) 465-1881. Copies of the Bank's annual and quarterly

stockholder reports can also be requested by e-mailing [fcf@farmcreditbank.com](mailto:fcf@farmcreditbank.com). The annual and quarterly stockholder reports are also available on its website at [www.farmcreditbank.com](http://www.farmcreditbank.com).

The Association’s quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter end and can be obtained by writing to Texas Farm Credit Services, 545 South Hwy. 77, Robstown, Texas, 78380 or calling (361) 387-8563. Copies of the Association’s quarterly stockholder reports can also be requested by e-mailing [lpepper@texasfarmcredit.com](mailto:lpepper@texasfarmcredit.com). The Association’s annual stockholder report is available on its website at [www.texasfarmcredit.com](http://www.texasfarmcredit.com) 75 days after the fiscal year end. Copies of the Association’s annual stockholder report can also be requested 90 days after the fiscal year end.

### SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2023, required to be disclosed, is incorporated herein by reference to the “Five-Year Summary of Selected Consolidated Financial Data” included in this annual report to stockholders.

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

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

### DIRECTORS AND SENIOR OFFICERS

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

NAME	POSITION	DATE	
		ELECTED/ EMPLOYED	TERM EXPIRES
Thomas Barker	Director	2012	2024
Jerry Chappell	Director-Vice Chairman	2013	2025
James Dawley	Director	2003	2026
Marion Vines Durand	Director-Appointed Stockholder	2012	2026
Roxann Garvin	Director	2019	2026
David Henneke	Director-Appointed Non-Stockholder	2005	2026
Bobby Hobson	Director-Chairman	2008	2025
John Prukop	Director	1990	2026
Mark Reus (deceased)	Director	2018	2025
Gregory T. Richbourg	Director-Appointed Non-Stockholder	2010	2026
Mark Miller	Chief Executive Officer	1989	---
John O'Brien, IV	Chief Credit Officer	2000	---
John Parker	Chief Information Officer	2003	---
Jolene Curtis	Chief Operations Officer	2004	---
Lane Pepper	Chief Financial & Risk Officer	2004	---
Joe Valladares	Chief Strategy Officer	2005	---
Lori V. Graham	General Counsel	2014	---
Keith A. Ibrom	Chief Financial Officer	1999	---

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 7P Ranch, a 1,750-acre registered Simmental operation located near Tyler, Texas, for the past thirteen years. Tom, and his wife, Laurie, own Star B Brahmans where they raise registered Brahman cattle using A.I. and embryo transfer. Tom also owns TMB3 Ranch Consulting providing consulting services to other ranchers and landowners. Mr. Barker is a member of the Smith County Livestock & Forage Committee which assists Texas A&M Agrilife Extension Service with educational programs for the county.



**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 non-profit 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 member of the Rio Grande Valley IPM Steering Committee, which promotes 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 Agency 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. Additionally, Mr. Dawley is a life member of both the Houston Livestock Show and the Houston Livestock Show Area Go-Texan Committee that promotes the show and supports area youth through programs and scholarships.

**Marion Vines Durand** is a resident of Austin, Texas, and 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 and land management. Mrs. Durand also serves as a manager of the Dan M Vines Limited Partnership and DMV Interest, LLC.

**Roxann Garvin** is a passionate fourth generation farmer. She, alongside her husband, Mike, and son Chance, operate Garvin Farms in Winnsboro, Texas, located in Hopkins and Wood Counties. Farm ownership became a reality in 1980 when she purchased the family farm from her retiring parents. Dairy farming spanned for 36 years and in 2016 the milk cow herd transitioned to a Brangus cow-calf operation. Today, the farm operation includes the cow herd, 800 acres for grazing and hay production, and four breeder farms, housing over 100,000 hens and roosters with JBS Pilgrims. She is a member of Wood County Farm Bureau and serves on the grower advisory committee with JBS Pilgrims. Formerly, Mrs. Garvin was the President Young Cooperator for Associated Milk Producers, Inc of the southern region of North America, whose officers are trained to mentor, foster, and promote other young aspiring couples in agriculture. She was recognized as Hopkins County Top Conservationist of the Year, as well as Winnsboro Chamber of Commerce Agriculture Business of the Year. Roxann and her husband have raised four beautiful children on their family farm. She has served on the Texas Farm Credit Board since 2019.

**David Henneke** is a retired investment advisor with more than 20 years of 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 bailing business with his brother, Larry Hobson. Mr. Hobson is president of the Douglass ISD School Board and serves as chairman of 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 vegetables 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 advisor to the South Texas Property Rights Association, which protects the rights of property owners in South Texas.

**Mark Reus** lived in Hondo, Texas, where he served as the managing partner for Reus Grain, LP, a family operation. Reus Grain, LP cleans and processes grains for bagging and bulk delivery to wholesale and retail customers for deer and wildlife feeding. Mr. Reus passed on January 12, 2024.

**Gregory T. Richbourg** is an equal shareholder in the public accounting firm of Gollob Morgan Peddy PC in Tyler, Texas. Mr. Richbourg is a certified public accountant and a member of the American Institute of Certified Public

Accountants and the Texas Society of Certified Public Accountants. He currently serves on the boards of directors for several local non-profit 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).

**Mark Miller** assumed the role of president/chief executive officer on January 1, 2014. He had served in the same role for Texas AgFinance since January 1, 2013. 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 has also served as a branch manager and chief operations officer. Effective December 18, 2023, Mr. Miller was appointed chief executive officer of Heritage Land Bank as part of a Joint Management Agreement approved by the boards of Texas Farm Credit Services and Heritage Land Bank, ACA. Mr. Miller is a graduate of Texas A&M University, as well as the Texas Agricultural Lifetime Leadership (TALL) program. He serves as an inside director to the FCCS board of directors and as a director for FarmLand Title, which is owned by FCCS.

**John O'Brien, IV** has served as chief credit officer since January 1, 2013. 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. Mrs. 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. Mrs. 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 April 2017 and chief financial officer July 2023. Prior to these appointments, 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. Since that time, Mr. Pepper has served in various leadership roles within both the credit and finance departments. Mr. Pepper has earned the Chartered Financial Analyst designation. He serves as treasurer of the Annapolis Christian Academy board of trustees.

**Joe Valladares** assumed the role of chief strategy and innovation officer in January 2021. From 2014 through 2020, Mr. Valladares served as chief audit officer and internal audit director. Between 2011 and 2013, Mr. Valladares served as chief financial officer at Agriland Farm Credit Services, which subsequently merged into Texas Farm Credit Services. In that role, 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.

**Keith A. Ibrom** served as chief financial officer from 1999 until retiring from the role June 2023. 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.

## 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 an \$18,000 annual retainer, the vice chairman of the board receives a \$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 2023 was paid at the IRS-approved rate of 65.5 cents per mile. A copy of the travel policy is available to stockholders of the Association upon request.

Director	Number of Meetings Served		2023 Compensation
	Board Meeting	Audit, Compensation and Other Special Meetings	
Thomas Barker	11	7	\$ 31,825
Jerry Chappell	11	19	45,600
James R. Dawley	11	10	37,025
Marion Vines Durand	11	15	28,350
Roxann Garvin	11	7	24,200
David Henneke	11	18	32,975
Bobby Hobson	11	19	48,075
John Prukop	11	16	42,625
Mark Reus	8	3	17,050
Gregory T. Richbourg	11	18	40,950
			<u>\$ 348,675</u>

The Association's entire board of directors serves on the compensation committee. Six directors serve on the audit committee, and five directors serve on the governance committee. The Association held a total of eleven board of directors meetings, eight audit committee meetings, five compensation committee meetings, three governance committee meetings and three other special meetings during 2023. This compares to six board of directors meetings, four audit committee meetings, three compensation committee meetings and two conference call governance committee meetings during 2022 and six board of directors meetings, five audit committee meetings, three compensation committee meetings and three conference call governance committee meetings during 2021.

The aggregate compensation paid to directors in 2023, 2022 and 2021 was \$348,675, \$303,050 and \$354,983, respectively. The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was \$132,619, \$57,079 and \$59,714 in 2023, 2022 and 2021, 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 charter is available to the public on the Association's website at [www.texasfarmcredit.com](http://www.texasfarmcredit.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 branches meet performance objectives such as financial services income to operating expense ratio 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 2023.

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. 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 and included in the incentive plan.

### Summary Compensation Table

The following table summarizes the compensation paid to the CEO and all senior officers of the Association during 2023, 2022 and 2021. This may include 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.

<b>Chief Executive Officer</b>	<b>Year</b>	<b>Salary ( b )</b>	<b>Bonus ( c )</b>	<b>Total</b>
<b>Mark Miller</b>	<b>2023</b>	<b>\$ 575,000</b>	<b>\$ 212,491</b>	<b>\$ 787,491</b>
Mark Miller	2022	\$ 515,000	\$ 260,878	\$ 775,878
Mark Miller	2021	\$ 480,000	\$ 265,072	\$ 745,072
<b>Aggregate Number of Senior Officers &amp; other highly compensated employees ( a )</b>	<b>Year</b>	<b>Salary ( b )</b>	<b>Bonus ( c )</b>	<b>Total</b>
<b>5 Officers</b>	<b>2023</b>	<b>\$ 1,213,500</b>	<b>\$ 448,448</b>	<b>\$ 1,661,948</b>
5 Officers	2022	\$ 1,117,500	\$ 566,080	\$ 1,683,580
5 Officers	2021	\$ 1,050,000	\$ 557,203	\$ 1,607,203

- (a) Aggregate number of senior officers/highly compensated individuals, excluding CEO.
- (b) Gross salary, including retention plan compensation for certain senior officers.
- (c) Bonuses paid within the first 31 days of the subsequent calendar year.

### Pension Benefits Disclosure

Neither the CEO or any 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 2023 at the IRS-approved rate of 65.5 cents per mile.

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

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

### **TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS**

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 13 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 would be required to report to the Farm Credit Administration under part 621 of the regulations governing this disclosure. The fees paid in 2023 for professional audit services rendered for the Association by the independent auditors, PricewaterhouseCoopers LLP, were \$134,274. The fees paid in 2023 for professional tax services rendered for the Association by the independent auditors, PricewaterhouseCoopers LLP, were \$13,000. 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, 2023.

### **FINANCIAL STATEMENTS**

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 8, 2024, and the report of management in this annual report to stockholders, are incorporated herein by reference.

### **MEMBER/SHAREHOLDER PRIVACY**

Members' nonpublic personal financial information is protected by Farm Credit Administration regulation. 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 that 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 2023 objectives compared to actual results.

<b>YBS Program - New Loan Volume</b>	<b>2023 Goal</b>	<b>2023 Result</b>
Young farmers and ranchers	\$ 90,000,000	\$ 69,705,000
Beginning farmers and ranchers	\$ 340,000,000	\$ 214,438,000
Small farmers and ranchers	\$ 340,000,000	\$ 202,551,000

<b>YBS Program - Percentage of New Loan Volume</b>	<b>2023 Goal</b>	<b>2023 Result</b>
Young farmers and ranchers	9.0%	9.8%
Beginning farmers and ranchers	33.0%	30.0%
Small farmers and ranchers	33.0%	28.4%

<b>YBS Program - Number of New Loans</b>	<b>2023 Goal</b>	<b>2023 Result</b>
Young farmers and ranchers	224	108
Beginning farmers and ranchers	810	345
Small farmers and ranchers	940	380

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 2024 objectives that were approved by the board of directors and included in the Association’s strategic plan are summarized in the following table.

<b>YBS Program - Number of Loans</b>	<b>2024 Goal</b>
Young farmers and ranchers	772
Beginning farmers and ranchers	2813
Small farmers and ranchers	3356

<b><u>YBS Program - Percentage of Total Number of Loans</u></b>	<b><u>Total Loans</u></b>
Young farmers and ranchers	16.2%
Beginning farmers and ranchers	59.4%
Small farmers and ranchers	71.0%

<b><u>YBS Program - Combined Segments</u></b>	<b><u>Total Loans</u></b>
% of Total Number of Loans	73.2%
% of Total Volume of Loans	56.0%

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 2023 data.

<b><u>YBS Program - State of Texas</u></b>	<b><u>Total</u></b>	<b><u>Number</u></b>	<b><u>Percentage of Total</u></b>
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%

<b><u>YBS Program - Association's Territory</u></b>	<b><u>Total</u></b>	<b><u>Number</u></b>	<b><u>Percentage of Total</u></b>
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%

<b><u>YBS Program - Association</u></b>	<b><u>Total</u></b>	<b><u>Number</u></b>	<b><u>Percentage of Total</u></b>
Agricultural producers' loans in the Association	4,965		
Young farmers and ranchers loans in the Association		813	16.4%
Beginning farmers and ranchers loans in the Association		2,961	59.6%
Small farmers and ranchers loans in the Association		3,533	71.2%

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#### **AGRICULTURE LENDING**

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

#### **RURAL REAL ESTATE FINANCING**

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

#### **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:

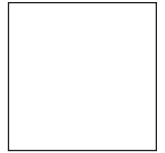
- Rural Home Program
- Rural Home Jumbo Program
- Conventional Program
- Conventional Jumbo Program
- Portfolio Loans
- FHA Program

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](https://www.texasfcs.com)





Texas Farm Credit Services  
545 S. Highway 77  
Robstown, TX 78380



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