



2022 ANNUAL REPORT

December 31, 2022

Fritsch Cattle Company

Fayetteville, Texas



Texas cattleman Gary Fritsch was just 16 when he learned a lesson that would shape his lifelong business philosophy. "I went to the bank in Fayetteville and asked the banker for a loan to buy some cattle. He asked me if I had any cattle to offer as collateral," Gary says, recalling the mid-1960s experience. "I told him if I already owned some cattle, I wouldn't need a loan."

Rather than give up, he borrowed funds from his aunt and resolved to build a cattle herd on his own. Today he operates Fritsch Cattle Company, buying and selling several hundred head of cattle a day. Yet he still follows the same approach he adopted as a teenager. "Every calf we buy, we buy one at a time."

Supported by Texas Farm Credit, the operation involves Gary and his wife, Betty, and their sons. Six days a week, Gary, "the boys" and two additional buyers attend 25 to 30 cattle auctions within 100 miles of Fayetteville. Their location in Central Texas is home to numerous small and part-time cow-calf operations that depend on local sale barns to market their animals.

Their loan officer, Kevin Hemann, reports that the entire family spends countless hours serving the community. "It's a pleasure to work with the Fritsch family and see their passion for agriculture and young people firsthand," he says. "We look forward to working with them for years to come."

The Fritsch siblings also appreciate Farm Credit's support for rural youth activities. "Texas Farm Credit has been so good to support the kids in FFA and 4-H and to be at the school functions," says son Brad. "You just tell them such and such is going on, and somebody from Texas Farm Credit will show up to support it. They're out there helping to support agriculture."

Scan for full article.



Twin Lakes Nursery

Canton, Texas



Imagine buying a 25-foot-tall tree in an 8-by-8-foot square box. Sound crazy? To Gideon “Deon” Dekkers Sr., founder of one of the largest commercial tree nurseries in Northeast Texas, it’s the only way to buy a large tree.

Dekkers and his sons own and operate Twin Lakes Nursery specializing in growing large, mature trees for the commercial landscaping industry.

From 13-foot hollies to 30-foot oaks — some up to 25 years old — Twin Lakes provides contractors with towering trees that look like they’ve always been a part of the landscape. They’ve even sold trees to New York City’s Rockefeller Center.

Container culture is a practice Dekkers was familiar with in his native South Africa. For over 15 years, he farmed and operated construction and landscaping businesses. Then in 1985, he emigrated to Texas, jobless but full of ambition. Soon he was winning construction and landscaping contracts in the Houston and Dallas areas. That’s when he saw an opportunity to provide mature trees for commercial landscapers and landscape architects.

They discovered Texas Farm Credit when they were looking for an agricultural banker that understood the nursery business. “We’ve never had such a simple banking experience as we have with Texas Farm Credit,” Dekkers says. “With commercial banks, we had to justify everything. Texas Farm Credit understands our growth and infrastructure needs.”

The operation uses the latest and most efficient irrigation practices, while also using the farm’s renewable resources for compost and dry earth potting matter, which is native topsoil mixed with aged pine bark.

“The Dekkers are responsible for adding hundreds of trees to our urban landscapes every year, which in turn are good for wildlife, soil and air,” says their Texas Farm Credit loan officer, Dustin McClendon. “They’ve contributed so much to the Canton community, and we’re pleased to support their goals.”

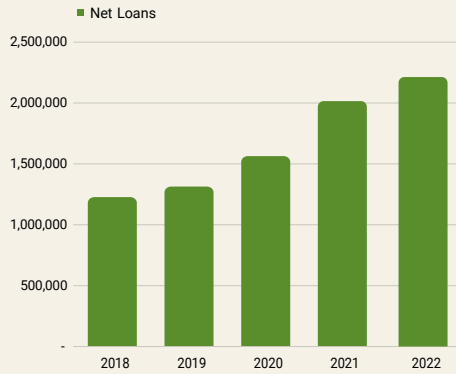


Scan for full article.

FINANCIAL HIGHLIGHTS

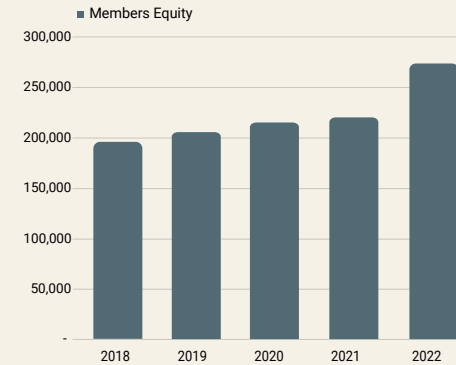
End-of-Year Net Loans

(dollars in thousands)



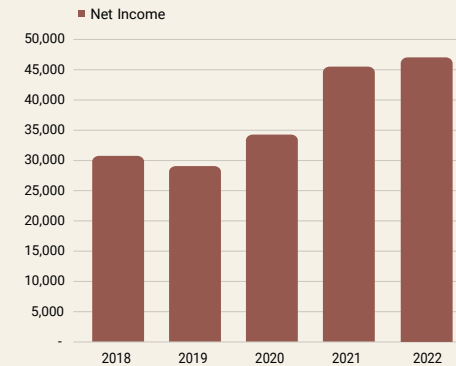
Members' Equity

(dollars in thousands)



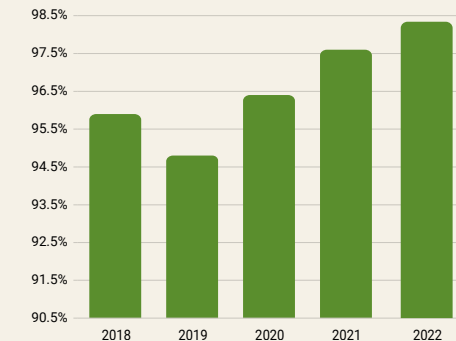
Net Income

(dollars in thousands)



End-of-Year Credit Quality

(dollars in thousands)



Dear Stockholders:

The team at Texas Farm Credit continued standing tall with our customers in 2022, which was a year of unique challenges driven by market, environmental and supply chain events. Many customers needed new levels of support and our experts rose to the challenge, helping you with short-term needs with a view to long-term success. We're grateful for the opportunity to help.

Here are some 2022 financial highlights:

- **We reported record net income, surpassing 2021 earnings by nearly 3%, our previous best year.**
- **We grew net loans by 10% over 2021, and an amazing 42% over 2020 levels.**
- **Members' equity increased 11% from 2021.**
- **Total cash patronage totaled nearly \$21 million, our second-highest year ever.**

When Texas Farm Credit does well financially, our members benefit. Strong performance allows us to return more patronage in the form of cashback dividends. We're pleased that we have again returned cash to customers.

These numbers are one sign of success. Another is our support for people and communities.

In 2017, with the support of the board of directors, we launched our Passion Forward initiative. Through this effort we strive to give 2% of our annual net income to local charitable organizations. Our giving in 2022 included supporting ag students with \$50,000 in scholarship awards; continuing the Youth Ag Video Showcase contest benefitting FFA and 4-H; continuing the Tommy Dean Shearrer Community Champion Award, which honors employees who give back to their communities; and joining with other Farm Credit associations in a \$162,500 contribution supporting wildfire relief efforts in Texas.

I'm so proud of our Texas Farm Credit team. From the Red River to the Rio Grande, nobody serves the rural communities of Texas with such passion, skill and commitment to customer service. And fueled by a new strategic vision, we will continue to faithfully serve members, employees, and communities. By focusing on lasting relationships, smart innovation and superior results, we're aiming to be your trusted partner now and for years to come.

Thank you for choosing Texas Farm Credit.

/s/ Mark Miller

Mark Miller
Chief Executive Officer

Table of Contents

Report of Management2

Report on Internal Control Over Financial Reporting3

Report of Audit Committee4

Five-Year Summary of Selected Consolidated Financial Data5

Management’s Discussion and Analysis of Financial Condition
and Results of Operations (Unaudited).....7

Report of Independent Auditors14

Consolidated Financial Statements.....16

Notes to Consolidated Financial Statements21

Disclosure Information and Index (Unaudited).....56

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 10, 2023

/s/ Bobby Hobson

Bobby Hobson, Chairman, Board of Directors
March 10, 2023

/s/ Keith A. Ibrom

Keith A. Ibrom, Chief Financial Officer
March 10, 2023

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, 2022. 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, 2022, 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, 2022. A review of the assessment performed was reported to the Association’s audit committee.

/s/ Mark Miller

Mark Miller, Chief Executive Officer
March 10, 2023

/s/ Keith A. Ibrom

Keith A. Ibrom, Chief Financial Officer
March 10, 2023

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of six members of the board of directors of Texas Farm Credit Services. In 2022, four 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 2022.

Management is responsible for Texas Farm Credit Services internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements are prepared under the oversight of the committee. PricewaterhouseCoopers LLP is responsible for performing an independent audit of Texas Farm Credit Services' consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and for issuing a report thereon. The committee's responsibilities include monitoring and overseeing these processes.

In this context, the committee reviewed and discussed Texas Farm Credit Services' audited consolidated financial statements for the year ended December 31, 2022 (audited consolidated financial statements) with management and PricewaterhouseCoopers LLP. The committee also reviews with PricewaterhouseCoopers LLP the matters required to be discussed by authoritative guidance "The Auditor's Communication With Those Charged With Governance," and both PricewaterhouseCoopers LLP's and Texas Farm Credit Services' internal auditors directly provide reports on significant matters to the committee.

The committee discussed with PricewaterhouseCoopers LLP its independence from Texas Farm Credit Services. The committee also reviewed the nonaudit services provided by PricewaterhouseCoopers LLP and concluded that these services were not incompatible with maintaining the independent accountant's independence. The committee has discussed with management and PricewaterhouseCoopers LLP such other matters and received such assurances from them as the committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the committee recommended that the board of directors include the audited consolidated financial statements in Texas Farm Credit Services' Annual Report to Stockholders for the year ended December 31, 2022.

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 10, 2023

TEXAS FARM CREDIT SERVICES

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

(unaudited)

(dollars in thousands)

| | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| <u>Balance Sheet Data</u> | | | | | |
| <u>Assets</u> | | | | | |
| Cash | \$ 26 | \$ 50 | \$ 2,374 | \$ 7,188 | \$ 5,082 |
| Investments | 425 | 735 | 1,054 | 2,661 | 3,060 |
| Loans | 2,218,378 | 2,014,919 | 1,563,260 | 1,314,083 | 1,227,197 |
| Less: allowance for loan losses | 3,052 | 3,017 | 6,000 | 4,324 | 2,996 |
| Net loans | 2,215,326 | 2,011,902 | 1,557,260 | 1,309,759 | 1,224,201 |
| Investment in and receivable from the Farm Credit Bank of Texas | 39,082 | 32,285 | 25,480 | 23,197 | 23,228 |
| Other property owned, net | - | - | - | 3,101 | - |
| Other assets | 39,574 | 36,362 | 28,476 | 30,007 | 26,332 |
| Total assets | <u>\$ 2,294,433</u> | <u>\$ 2,081,334</u> | <u>\$ 1,614,644</u> | <u>\$ 1,375,913</u> | <u>\$ 1,281,903</u> |
| <u>Liabilities</u> | | | | | |
| Obligations with maturities of one year or less | \$ 36,192 | \$ 38,244 | \$ 29,050 | \$ 27,700 | \$ 24,058 |
| Obligations with maturities greater than one year | 1,995,939 | 1,807,683 | 1,366,940 | 1,143,305 | 1,061,991 |
| Total liabilities | <u>\$ 2,032,131</u> | <u>\$ 1,845,927</u> | <u>\$ 1,395,990</u> | <u>\$ 1,171,005</u> | <u>\$ 1,086,049</u> |
| <u>Members' Equity</u> | | | | | |
| Capital stock and participation certificates | \$ 4,580 | \$ 4,365 | \$ 4,175 | \$ 3,791 | \$ 4,100 |
| Additional paid-in capital | 47,596 | 47,596 | 47,596 | 47,596 | 47,596 |
| Allocated retained earnings | 53,220 | 54,628 | 57,255 | 56,437 | 54,987 |
| Unallocated retained earnings | 156,044 | 129,134 | 110,209 | 97,794 | 89,370 |
| Accumulated other comprehensive income (loss) | 862 | (316) | (581) | (710) | (199) |
| Total members' equity | 262,302 | 235,407 | 218,654 | 204,908 | 195,854 |
| Total liabilities and members' equity | <u>\$ 2,294,433</u> | <u>\$ 2,081,334</u> | <u>\$ 1,614,644</u> | <u>\$ 1,375,913</u> | <u>\$ 1,281,903</u> |
| <u>Statement of Income Data</u> | | | | | |
| Net interest income | \$ 55,847 | \$ 47,713 | \$ 40,368 | \$ 36,935 | \$ 36,390 |
| Loan loss reversal (provision for loan losses) | 22 | 3,435 | (1,557) | (2,135) | 1,025 |
| Income from the Farm Credit Bank of Texas | 15,805 | 13,973 | 12,327 | 11,149 | 8,463 |
| Other noninterest income | 10,755 | 11,119 | 8,592 | 6,928 | 8,606 |
| Noninterest expense | (35,536) | (30,100) | (25,310) | (23,797) | (23,296) |
| Benefit from income taxes | (74) | (623) | (140) | - | (432) |
| Net income | <u>\$ 46,819</u> | <u>\$ 45,517</u> | <u>\$ 34,280</u> | <u>\$ 29,080</u> | <u>\$ 30,756</u> |

TEXAS FARM CREDIT SERVICES

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

(unaudited)

(dollars in thousands)

| | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|---|------------------|-------------|-------------|-------------|-------------|
| <u>Key Financial Ratios for the Year</u> | | | | | |
| Return on average assets | 2.1% | 2.5% | 2.3% | 2.2% | 2.3% |
| Return on average members' equity | 18.1% | 18.9% | 15.6% | 13.9% | 15.7% |
| Net interest income as a percentage of average earning assets | 2.5% | 2.6% | 2.7% | 2.9% | 2.8% |
| Net charge-offs (recoveries) as a percentage of average loans | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Members' equity as a percentage of total assets | 11.4% | 11.3% | 13.5% | 14.9% | 15.3% |
| Debt as a percentage of members' equity | 774.7% | 784.1% | 638.4% | 571.5% | 554.5% |
| Allowance for loan losses as a percentage of loans | 0.1% | 0.2% | 0.4% | 0.3% | 0.2% |
| Common equity tier 1 ratio | 12.6% | 12.6% | 13.5% | 14.2% | 14.8% |
| Tier 1 capital ratio | 12.6% | 12.6% | 13.5% | 14.2% | 14.8% |
| Total capital ratio | 12.7% | 12.8% | 13.9% | 14.5% | 15.1% |
| Permanent capital ratio | 12.6% | 12.6% | 13.5% | 14.2% | 14.9% |
| Tier 1 leverage ratio | 10.5% | 11.4% | 13.3% | 14.0% | 14.6% |
| UREE leverage ratio | 7.9% | 9.0% | 10.1% | 10.6% | 10.6% |
| <u>Net Income Distribution</u> | | | | | |
| Patronage dividends: | | | | | |
| Cash | \$ 21,147 | \$ 23,701 | \$ 19,035 | \$ 17,866 | \$ 14,655 |
| Allocated retained earnings | - | 6,029 | 6,993 | 7,750 | 6,924 |

*Effective January 1, 2017, the new regulatory capital ratios were implemented by the Association. The Association's ratios remained well above the regulatory minimums, including the conservation and leverage buffers at December 31, 2022. For more information, see Note 11 in the accompanying consolidated financial statements, "Members Equity" included in this annual report.

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

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Texas Farm Credit Services, including its wholly owned subsidiaries, Texas Farm Credit Services, PCA and Texas Farm Credit Services, FLCA (Association) for the years ended December 31, 2022, 2021 and 2020, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying financial statements were prepared under the oversight of the Association's audit committee.

Forward-Looking Information:

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

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

Commodity Review and Outlook:

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

Significant Events:

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

Patronage Refunds Received From FCBT:

In December 2022, the Association received a direct loan patronage of \$12,882,157 from the Bank, representing 66 basis points on the average daily balance of the Association's direct loan with the Bank. The Association received a \$2,178,231 patronage based on its Capitalized and Non-Capitalized Participation Pool agreements with the Bank. During 2022, the Association received \$704,275 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 \$40,517 from the Bank, representing 100 basis points on the Association's average balance of participations in the Bank's patronage pool program.

Patronage Refunds by Association:

In April 2022, Texas Farm Credit Services declared a \$34,968,215 patronage for all members who had outstanding accrual loans with the Association during fiscal year 2021. The Association patronage paid members \$19,848,928 in cash, \$5,919,287 in redeemable allocated surplus eligible for future cash distribution and \$9,200,000 in Association retained allocated surplus. In

December 2022, the Association distributed \$1,298,092 in cash patronage from redeemable allocated surplus originally declared in 2015.

For more than 88 years, the Association has continued to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the Association while offering competitive loan products that meet the financial needs of agricultural producers.

COVID Discussion:

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

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

Loan Portfolio:

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans, and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed, adjustable, LIBOR-based and prime-based interest rates. Loan maturities range from one to 30 years, with annual operating loans comprising the majority of the commercial loans and 15- to 30-year maturities comprising the majority of the mortgage loans. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

The composition of the Association's loan portfolio, including principal less funds held of \$2,218,378,245, \$2,014,918,904 and \$1,563,259,965 as of December 31, 2022, 2021 and 2020, respectively, is described more fully in detailed tables in Note 4 to the consolidated financial statements, "Loans and Allowance for Loan Losses" included in this annual report.

At December 31, 2022, the Association held loans totaling \$718,003 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 2022, 2021 and 2020, the Association was participating in loans with other lenders. As of December 31, 2022, 2021 and 2020, these participations totaled \$210,680,692, \$205,166,277 and \$205,247,754, or 9.5 percent, 10.2 percent and 13.1 percent of loans, respectively. Included in these amounts are participations purchased from entities outside the district of \$34,623,892, \$47,211,161 and \$15,835,053, or 1.6 percent, 2.3 percent and 1.0 percent of loans, respectively. The Association has also sold participations of \$129,830,392, \$108,964,168 and \$203,409,590 as of December 31, 2022, 2021 and 2020, respectively.

Risk Exposure:

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

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

| | 2022 | | 2021 | | 2020 | |
|--|---------------|--------|--------------|--------|--------------|--------|
| | Amount | % | Amount | % | Amount | % |
| Nonaccrual | \$ 10,503,174 | 86.8% | \$ 8,317,858 | 91.7% | \$ 6,643,286 | 89.4% |
| 90 days past due and still accruing interest | 1,598,991 | 13.2% | 20 | 0.0% | 4,549 | 0.1% |
| Formally restructured | - | 0.0% | 752,742 | 8.3% | 782,380 | 10.5% |
| Total | \$ 12,102,165 | 100.0% | \$ 9,070,620 | 100.0% | \$ 7,430,215 | 100.0% |

At December 31, 2022, 2021 and 2020, loans that were considered impaired were \$12,102,165, \$9,070,620 and \$7,430,215, representing 0.6 percent, 0.5 percent and 0.5 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

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

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 Loan Losses:

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

| | 2022 | 2021 | 2020 |
|---|--------------|--------------|--------------|
| Allowance for loan losses | \$ 3,051,962 | \$ 3,016,536 | \$ 5,999,691 |
| (Reversal of) provision for loan losses | (21,951) | (3,434,679) | 1,566,829 |
| Loans charged off | - | - | (1,583) |
| Recoveries | 21,217 | 419,576 | 35,434 |
| Allowance for loan losses to total loans | 0.1% | 0.2% | 0.4% |
| Allowance for loan losses to nonaccrual loans | 29.1% | 36.3% | 90.3% |
| Allowance for loan losses to impaired loans | 25.2% | 33.3% | 80.8% |
| Net charge-offs to average loans | 0.0% | 0.0% | 0.0% |

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

Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of \$3,051,962, \$3,016,536 and \$5,999,691 at December 31, 2022, 2021 and 2020, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates. Based on analysis performed by the Association, it concluded the entire balance of nonaccrual loans is well-secured by either a prioritized security interest in real estate, equipment or livestock with values in excess of the principal loan balances less selling expenses or an agency guarantee.

Results of Operations:

The Association's net income for the year ended December 31, 2022, was \$46,818,700 as compared to \$45,517,351 for the year ended December 31, 2021, reflecting an increase of \$1,301,349, or 2.9 percent. The Association's net income for the year ended December 31, 2020 was \$34,279,506. Net income increased \$11,237,845, or 32.8 percent, in 2021 versus 2020.

Net interest income for 2022, 2021 and 2020 was \$55,847,256, \$47,713,115 and \$40,367,817, respectively, reflecting increases of \$8,134,141, or 17.1 percent, for 2022 versus 2021 and \$7,345,298, or 18.2, for 2021 versus 2020. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

| | 2022 | | 2021 | | 2020 | |
|-------------------------------|------------------|----------------|------------------|---------------|------------------|---------------|
| | Average Balance | Interest | Average Balance | Interest | Average Balance | Interest |
| Loans | \$ 2,151,130,655 | \$ 100,935,918 | \$ 1,778,001,755 | \$ 77,813,673 | \$ 1,416,604,314 | \$ 68,737,980 |
| Investments | 565,608 | 34,872 | 865,925 | 49,039 | 1,580,888 | 91,154 |
| Total interest-earning assets | 2,151,696,263 | 100,970,790 | 1,778,867,680 | 77,862,712 | 1,418,185,202 | 68,829,134 |
| Interest-bearing liabilities | 1,939,352,236 | 45,123,534 | 1,577,668,479 | 30,149,597 | 1,240,498,781 | 28,461,317 |
| Impact of capital | \$ 212,344,027 | | \$ 201,199,201 | | \$ 177,686,421 | |
| Net interest income | | \$ 55,847,256 | | \$ 47,713,115 | | \$ 40,367,817 |

| | 2022 | 2021 | 2020 |
|--|---------------|---------------|---------------|
| | Average Yield | Average Yield | Average Yield |
| Yield on loans | 4.69% | 4.38% | 4.85% |
| Yield on investments | 6.17% | 5.66% | 5.77% |
| Total yield on interest-earning assets | 4.69% | 4.38% | 4.85% |
| Cost of interest-bearing liabilities | 2.33% | 1.91% | 2.29% |
| Interest rate spread | 2.36% | 2.47% | 2.56% |

| | 2022 vs. 2021 | | | 2021 vs. 2020 | | |
|-------------------------------|----------------------------|----------------|--------------|----------------------------|----------------|--------------|
| | Increase (decrease) due to | | | Increase (decrease) due to | | |
| | Volume | Rate | Total | Volume | Rate | Total |
| Interest income - loans | \$16,329,986 | \$ 6,792,259 | \$23,122,245 | \$ 17,536,088 | \$ (8,460,395) | \$ 9,075,693 |
| Interest income - investments | (17,008) | 2,841 | (14,167) | (41,225) | (890) | (42,115) |
| Total interest income | 16,312,978 | 6,795,100 | 23,108,078 | 17,494,863 | (8,461,285) | 9,033,578 |
| Interest expense | 6,911,777 | 8,062,160 | 14,973,937 | 7,735,684 | (6,047,404) | 1,688,280 |
| Net interest income | \$ 9,401,201 | \$ (1,267,060) | \$ 8,134,141 | \$ 9,759,179 | \$ (2,413,881) | \$ 7,345,298 |

Interest income for 2022 increased by \$23,108,078, or 29.7 percent, compared to 2021, primarily due to increases in yields on earning assets and an increase in average loan volume. Interest expense for 2022 increased by \$14,973,937, or 49.7 percent, compared to 2021 due to an increase in funding rates as well as an increase in average debt volume. The interest rate spread decreased by 11 basis points to 2.36 percent in 2022 from 2.47 percent in 2021, primarily because the Association experienced strong market demand and competition for quality credits, which resulted in compressed interest rate spreads. The interest rate spread decreased by 9 basis points to 2.47 percent in 2021 from 2.56 percent in 2020, primarily because of spread compression.

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

Provisions for loan losses increased by \$3,412,728, or 99.4 percent, compared to 2021, due primarily to prior year reversal of valuation allowance related to the COVID-19 pandemic that was established in 2020.

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 2022 increased \$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. Noninterest expenses for 2021 increased by \$4,789,573, or 18.9 percent, compared to 2020, due primarily to increases in salaries, purchased services, Insurance Fund premiums and Farmer Mac guarantee fees. Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs resulted in the capitalization of \$3,170,737, \$5,070,152 and \$2,894,791 for 2022,

2021 and 2020, 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, 2022, the Association's return on average assets was 2.1 percent, as compared to 2.5 percent and 2.3 percent for the years ended December 31, 2021 and 2020, respectively. For the year ended December 31, 2022, the Association's return on average members' equity was 18.1 percent, as compared to 18.9 percent and 15.6 percent for the years ended December 31, 2021 and 2020, respectively.

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

Liquidity and Funding Sources:

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

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$1,991,062,303, \$1,804,831,571 and \$1,364,703,280 as of December 31, 2022, 2021 and 2020, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.33 percent, 1.91 percent and 2.29 percent at December 31, 2022, 2021 and 2020, respectively. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2021, is due to 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 \$228,410,548, \$213,035,272 and \$200,458,994 at December 31, 2022, 2021 and 2020, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2022, was \$2,225,158,823 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2023, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

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

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

Capital Resources:

The Association's capital position remains strong, with total members' equity of \$262,302,480, \$235,406,861 and \$218,654,900 at December 31, 2022, 2021 and 2020, respectively.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-weighted assets as defined by the FCA. The permanent capital ratio measures available at-risk capital relative to risk-weighted assets and off-balance-sheet contingencies. The ratio is an indicator of the 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, 2022, 2021 and 2020, was 12.6 percent, 12.6 percent and 13.5 percent, respectively. The Association is required to maintain a minimum common equity tier 1 (CET1), tier 1 capital and total capital ratios of 4.5 percent, 6.0 percent and 8.0 percent, along with a capital conservation buffer of 2.5 percent applicable to each ratio, respectively. The 2.5 percent capital conservation buffer was phased in over a three-year period ending on December 31, 2019. The Association's common equity tier 1 ratio at December 31, 2022, 2021 and 2020, was 12.6 percent, 12.6 percent and 13.5 percent, respectively. The tier 1 capital ratio at December 31, 2022, 2021 and 2020, was 12.6 percent, 12.6 percent and 13.5 percent, respectively. The total capital ratio was 12.7 percent, 12.8 percent and 13.9 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, 2022, 2021 and 2020, was 10.5 percent, 11.4 percent and 13.3 percent, respectively. The UREE leverage ratio was 7.9 percent, 9.0 percent and 10.1 percent at December 31, 2022, 2021 and 2020, respectively.

In 2022, 2021 and 2020, the Association paid patronage distributions of \$21,147,015, \$23,701,338 and \$19,034,999, respectively. In December 2022, the board of directors approved an estimated \$20,539,000 cash patronage distribution to be paid in April 2023. See Note 11 to the consolidated financial statements, “Members’ Equity,” included in this annual report, for further information.

Significant Recent Accounting Pronouncements:

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

Regulatory Matters:

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

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

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

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

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

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

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

Relationship With the Bank:

The Association’s statutory obligation to borrow only from the Bank is discussed in Note 10 to the consolidated financial statements, “Note Payable to the Bank,” included in this annual report.

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

The Bank’s role in mitigating the Association’s exposure to interest rate risk is described in the section “Liquidity and Funding Sources” of Management’s Discussion and Analysis and in Note 10 to the consolidated financial statements, “Note Payable to the Bank,” included in this annual report.

The Bank provides computer systems to support the critical operations of all district associations. In addition, each association has operating systems and facility-based systems that are not supported by the Bank. As disclosed in Note 14 to the consolidated

financial statements, “Related Party Transactions,” included in this annual report, the Bank provides many services that the Association can utilize, such as administrative, marketing, information systems and accounting services. Additionally, the Bank bills district expenses to the Associations, such as the Farm Credit System Insurance Corporation insurance premiums.

Summary:

Over the past 88 years, regardless of the state of the agricultural economy, your Association’s board of directors and management, as well as the board of directors and management of the Bank, have been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this Association.



Report of Independent Auditors

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

Opinion

We have audited the accompanying consolidated financial statements of Texas Farm Credit Services, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2022, 2021 and 2020, and the related consolidated statements of comprehensive income, changes in members' equity and cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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

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

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

Other Information

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

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

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

Austin, Texas
March 10, 2023

TEXAS FARM CREDIT SERVICES

CONSOLIDATED BALANCE SHEET

| | December 31, | | |
|---|------------------|------------------|------------------|
| | 2022 | 2021 | 2020 |
| <u>Assets</u> | | | |
| Cash | \$ 26,159 | \$ 49,663 | \$ 2,373,598 |
| Investments | 424,737 | 734,626 | 1,054,100 |
| Loans | 2,218,378,245 | 2,014,918,904 | 1,563,259,965 |
| Less: allowance for loan losses | 3,051,962 | 3,016,536 | 5,999,691 |
| Net loans | 2,215,326,283 | 2,011,902,368 | 1,557,260,274 |
| Accrued interest receivable | 18,151,458 | 12,695,690 | 10,371,113 |
| Investment in and receivable from the Farm Credit Bank of Texas: | | | |
| Capital stock | 38,519,130 | 30,952,565 | 24,760,550 |
| Other | 563,151 | 1,332,270 | 719,400 |
| Deferred taxes, net | 163,570 | 199,554 | 711,938 |
| Premises and equipment | 17,895,655 | 15,146,253 | 14,367,270 |
| Other assets | 3,363,181 | 8,320,554 | 3,026,151 |
| Total assets | \$ 2,294,433,324 | \$ 2,081,333,543 | \$ 1,614,644,394 |
| <u>Liabilities</u> | | | |
| Note payable to the Farm Credit Bank of Texas | \$ 1,991,062,303 | \$ 1,804,831,571 | \$ 1,364,703,280 |
| Advance conditional payments | 2,136,930 | 300,030 | 490,138 |
| Accrued interest payable | 4,876,398 | 2,851,345 | 2,237,465 |
| Drafts outstanding | 150,749 | 247,204 | 77,855 |
| Patronage distributions payable | 20,539,000 | 20,370,325 | 14,851,050 |
| Other liabilities | 13,365,464 | 17,326,207 | 13,629,706 |
| Total liabilities | 2,032,130,844 | 1,845,926,682 | 1,395,989,494 |
| <u>Members' Equity</u> | | | |
| Capital stock and participation certificates | 4,580,185 | 4,364,895 | 4,174,745 |
| Additional paid-in capital | 47,596,495 | 47,596,495 | 47,596,495 |
| Allocated retained earnings | 53,219,859 | 54,627,414 | 57,255,152 |
| Unallocated retained earnings | 156,044,338 | 129,133,773 | 110,209,297 |
| Accumulated other comprehensive income (loss) | 861,603 | (315,716) | (580,789) |
| Total members' equity | 262,302,480 | 235,406,861 | 218,654,900 |
| Total liabilities and members' equity | \$ 2,294,433,324 | \$ 2,081,333,543 | \$ 1,614,644,394 |

*The accompanying notes are an integral part of these consolidated financial statements.
Texas Farm Credit Services — 2022 Annual Report*

TEXAS FARM CREDIT SERVICES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Year Ended December 31, | | |
|---|-------------------------|----------------------|----------------------|
| | 2022 | 2021 | 2020 |
| <u>Interest Income</u> | | | |
| Loans | \$ 100,935,918 | \$ 77,813,673 | \$ 68,737,980 |
| Investments | 34,872 | 49,039 | 91,154 |
| Total interest income | <u>100,970,790</u> | <u>77,862,712</u> | <u>68,829,134</u> |
| <u>Interest Expense</u> | | | |
| Note payable to the Farm Credit Bank of Texas | 45,107,925 | 30,149,455 | 28,558,754 |
| Advance conditional payments | 15,609 | 142 | 1,827 |
| Other | - | - | (99,264) |
| Total interest expense | <u>45,123,534</u> | <u>30,149,597</u> | <u>28,461,317</u> |
| Net interest income | <u>55,847,256</u> | <u>47,713,115</u> | <u>40,367,817</u> |
| (Reversal of) provision for loan losses and other property owned | <u>(21,951)</u> | <u>(3,434,679)</u> | <u>1,557,065</u> |
| Net interest income after provision for losses | <u>55,869,207</u> | <u>51,147,794</u> | <u>38,810,752</u> |
| <u>Noninterest Income</u> | | | |
| Income from the Farm Credit Bank of Texas: | | | |
| Patronage income | 15,805,180 | 13,972,755 | 12,327,234 |
| Loan fees | 4,579,788 | 5,314,641 | 3,343,090 |
| Financially related services income | 5,350,682 | 4,938,835 | 4,483,776 |
| (Loss) gain on other property owned, net | - | - | (67,320) |
| Gain on sale of premises and equipment, net | 383,318 | 579,658 | 252,311 |
| Other noninterest income | 440,816 | 287,188 | 580,185 |
| Total noninterest income | <u>26,559,784</u> | <u>25,093,077</u> | <u>20,919,276</u> |
| <u>Noninterest Expenses</u> | | | |
| Salaries and employee benefits | 19,265,039 | 17,045,906 | 16,187,454 |
| Directors' expense | 507,293 | 523,786 | 463,752 |
| Purchased services | 1,222,048 | 1,794,222 | 1,109,619 |
| Travel | 1,713,860 | 1,301,380 | 989,765 |
| Occupancy and equipment | 3,453,554 | 2,875,434 | 2,473,064 |
| Communications | 454,969 | 382,806 | 374,221 |
| Advertising | 402,207 | 402,803 | 284,018 |
| Public and member relations | 1,306,228 | 1,163,912 | 762,929 |
| Supervisory and exam expense | 528,982 | 459,883 | 431,122 |
| Insurance Fund premiums | 3,685,870 | 2,374,492 | 1,098,201 |
| Other noninterest expense | 2,996,735 | 1,775,668 | 1,136,574 |
| Total noninterest expenses | <u>35,536,785</u> | <u>30,100,292</u> | <u>25,310,719</u> |
| Income before income taxes | <u>46,892,206</u> | <u>46,140,579</u> | <u>34,419,309</u> |
| Provision for income taxes | <u>73,506</u> | <u>623,228</u> | <u>139,803</u> |
| NET INCOME | <u>46,818,700</u> | <u>45,517,351</u> | <u>34,279,506</u> |
| Other comprehensive income, net of tax | <u>1,177,319</u> | <u>265,073</u> | <u>129,349</u> |
| COMPREHENSIVE INCOME | <u>\$ 47,996,019</u> | <u>\$ 45,782,424</u> | <u>\$ 34,408,855</u> |

*The accompanying notes are an integral part of these consolidated financial statements.
Texas Farm Credit Services — 2022 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, 2019 | \$ 3,791,365 | \$ 47,596,495 | \$ 56,437,331 | \$ 97,793,661 | \$ (710,138) | \$ 204,908,714 |
| Comprehensive income | - | - | - | 34,279,506 | 129,349 | 34,408,855 |
| Capital stock/participation certificates and allocated retained earnings issued | 631,950 | - | - | - | - | 631,950 |
| Capital stock/participation certificates and allocated retained earnings retired | (248,570) | - | - | - | - | (248,570) |
| Patronage dividends: | | | | | | |
| Cash | - | - | (6,174,679) | (14,871,370) | - | (21,046,049) |
| Capital stock/participation certificates and allocated retained earnings | - | - | 6,992,500 | (6,992,500) | - | - |
| Balance at December 31, 2020 | 4,174,745 | 47,596,495 | 57,255,152 | 110,209,297 | (580,789) | 218,654,900 |
| Comprehensive income | - | - | - | 45,517,351 | 265,073 | 45,782,424 |
| Capital stock/participation certificates issued | 941,700 | - | - | - | - | 941,700 |
| Capital stock/participation certificates and allocated retained earnings retired | (751,550) | - | - | - | - | (751,550) |
| Patronage dividends: | | | | | | |
| Cash | - | - | (8,656,488) | (20,564,125) | - | (29,220,613) |
| Capital stock/participation certificates and allocated retained earnings | - | - | 6,028,750 | (6,028,750) | - | - |
| Balance at December 31, 2021 | 4,364,895 | 47,596,495 | 54,627,414 | 129,133,773 | (315,716) | 235,406,861 |
| 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 |

The accompanying notes are an integral part of these consolidated financial statements.
Texas Farm Credit Services — 2022 Annual Report

TEXAS FARM CREDIT SERVICES

CONSOLIDATED STATEMENT OF CASH FLOWS

| | Year Ended December 31, | | |
|---|-------------------------|----------------------|----------------------|
| | 2022 | 2021 | 2020 |
| Cash flows from operating activities: | | | |
| Net income | \$ 46,818,700 | \$ 45,517,351 | \$ 34,279,506 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for loan losses (loan loss reversal) | 14,209 | (3,402,731) | 1,641,936 |
| Provision reversal for acquired property | - | - | (9,764) |
| Gain on sale of other property owned, net | - | - | (7,887) |
| Depreciation | 1,578,843 | 1,370,778 | 1,319,379 |
| Amortization (accretion) of net (premiums) discounts in investments | 39,178 | 39,564 | (275,214) |
| Gain on sale of premises and equipment, net | (383,318) | (579,658) | (252,311) |
| (Increase) decrease in accrued interest receivable | (5,455,768) | (2,324,577) | 649,135 |
| Decrease (increase) in other receivables from the Farm Credit Bank of Texas | 769,119 | (612,870) | (175,795) |
| Decrease (increase) in deferred tax assets | 35,984 | 512,384 | (3,439) |
| Decrease (increase) in other assets | 4,957,373 | (5,294,403) | 314,683 |
| Increase (decrease) in accrued interest payable | 2,025,053 | 613,880 | (582,995) |
| (Decrease) increase in other liabilities | (2,783,424) | 3,961,574 | (443,347) |
| Net cash provided by operating activities | <u>47,615,949</u> | <u>39,801,292</u> | <u>36,453,887</u> |
| Cash flows from investing activities: | | | |
| Increase in loans, net | (203,498,519) | (451,698,503) | (249,211,814) |
| Cash recoveries of loans previously charged off | 21,217 | 419,576 | 35,434 |
| Proceeds from purchase of investment in the Farm Credit Bank of Texas | (7,566,565) | (6,192,015) | (2,107,610) |
| Investment securities held-to-maturity | | | |
| Proceeds from maturities, calls and prepayments | 309,889 | 319,474 | 1,606,591 |
| Purchases of premises and equipment | (4,542,886) | (2,231,257) | (757,229) |
| Proceeds from sales of premises and equipment | 597,959 | 661,154 | 260,668 |
| Proceeds from sales of other property owned | - | - | 3,427,788 |
| Net cash used in investing activities | <u>(214,678,905)</u> | <u>(458,721,571)</u> | <u>(246,746,172)</u> |

*The accompanying notes are an integral part of these consolidated financial statements.
Texas Farm Credit Services — 2022 Annual Report*

TEXAS FARM CREDIT SERVICES

CONSOLIDATED STATEMENT OF CASH FLOWS

| | Year Ended December 31, | | |
|---|-------------------------|-----------------|------------------|
| | 2022 | 2021 | 2020 |
| Cash flows from financing activities: | | | |
| Net draws on note payable to the Farm Credit Bank of Texas | 186,230,732 | 440,128,291 | 224,218,526 |
| (Decrease) increase in drafts outstanding | (96,455) | 169,349 | (43,519) |
| Increase (decrease) in advance conditional payments | 1,836,900 | (190,108) | (45,555) |
| Issuance of capital stock and participation certificates | 516,115 | 941,700 | 631,950 |
| Retirement of capital stock and participation certificates | (300,825) | (751,550) | (248,570) |
| Patronage distributions paid | (21,147,015) | (23,701,338) | (19,034,999) |
| Net cash provided by financing activities | 167,039,452 | 416,596,344 | 205,477,833 |
| Net decrease in cash | (23,504) | (2,323,935) | (4,814,452) |
| Cash at the beginning of the year | 49,663 | 2,373,598 | 7,188,050 |
| Cash at the end of the year | \$ 26,159 | \$ 49,663 | \$ 2,373,598 |
| Supplemental schedule of noncash investing and financing activities: | | | |
| Loans transferred to other property owned | \$ - | \$ - | \$ 308,743 |
| Loans charged off | - | - | 1,583 |
| Patronage distributions declared | 20,539,000 | 20,370,325 | 14,851,050 |
| Transfer of allowance for loan losses from reserve for unfunded commitments | 36,160 | 31,948 | 75,107 |
| Supplemental cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest | \$ 43,098,481 | \$ 29,535,717 | \$ 29,143,576 |
| Income taxes | 145,000 | 286,648 | 125,000 |

*The accompanying notes are an integral part of these consolidated financial statements.
Texas Farm Credit Services — 2022 Annual Report*

**TEXAS FARM CREDIT SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 1 — ORGANIZATION AND OPERATIONS:

- A. Organization: Texas Farm Credit Services, including its wholly owned subsidiaries, Texas Farm Credit Services, PCA and Texas Farm Credit Services, FLCA (collectively called “the Association”), is a member-owned cooperative 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, and 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, 2022, the System consisted of three Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

The Farm Credit Bank of Texas (Bank) and its related associations are collectively referred to as the “district.” The Bank provides funding to all associations within the district and is responsible for supervising certain activities of the district associations. At December 31, 2022, the district consisted of the Bank, one FLCA and 13 ACA parent companies, which have two wholly owned subsidiaries, an FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

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

The Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected borrower capital at par or stated value and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the FCSIC of providing assistance to certain troubled System associations and to cover the operating expenses of the FCSIC. Each System bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its annual average adjusted outstanding insured debt until the monies in the Insurance Fund reach the “secure base amount,” which is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or other such percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. Under the Farm Credit Act, as amended, the FCSIC may return excess funds above the secure base amount to System banks, which may be passed on to the Association.

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

- B. Operations: The Act sets forth the types of authorized lending activity, 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, multi-peril crop insurance and pasture, rangeland and forage insurance.

The Association's financial condition may be affected by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect stockholders' investments in the Association. Upon request, stockholders of the Association will be provided with the Farm Credit Bank of Texas Annual Report to Stockholders.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation and Consolidation

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

Use of Estimates

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

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results could differ from those estimates. The consolidated financial statements include the accounts of Texas Farm Credit Services, PCA and Texas Farm Credit Services, FLCA. All significant intercompany transactions have been eliminated in consolidation.

A. Recently Issued or Adopted Accounting Pronouncements:

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

In March 2020, the FASB issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting (Reference Rate Reform)." The guidance provides 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)). The optional amendments are effective as of March 12, 2020 through December 31, 2022.

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

The Association adopted the FASB guidance entitled “Measurement of Credit Losses on Financial Instruments” on January 1, 2023. The adoption of this guidance resulted in a net increase in the Association’s allowance for credit losses of approximately \$1.7 million and a corresponding decrease in retained earnings. This guidance established a single allowance framework for all financial assets measured at amortized cost and certain off-balance sheet credit exposures. The guidance requires management to consider in its estimate of allowance for credit losses (ACL) relevant historical events, current conditions and reasonable and supportable forecasts that affect the collectability of the assets. Prior to the adoption, the allowance for loan losses represented management’s estimate of the probable credit losses inherent in its loan portfolio and certain unfunded commitments. In addition, the guidance amends existing impairment guidance for held-to-maturity and available-for-sale investments to incorporate an allowance, which will allow for the reversal of credit impairments in the event that the credit of an issuer improves.

- B. Cash: Cash, as included in the financial statements, represents cash on hand and deposits at banks.
- C. Investments: The Association’s investments include mortgage-backed securities issued by Federal Agricultural Mortgage Corporation (Farmer Mac) for which the Association has the intent and ability to hold to maturity and 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.

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

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

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

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

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

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.

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

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

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

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

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

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

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

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk-rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a “9” to other assets especially mentioned (OAEM) and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

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

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

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

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

The Association adopted the FASB guidance entitled “Measurement of Credit Losses on Financial Instruments” on January 1, 2023. The adoption of this guidance resulted in a net increase in the Association’s allowance for credit losses of approximately \$1.7 million and a corresponding decrease in retained earnings.

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

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

- F. Other Property Owned, Net: Other property owned, net, consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure, and is recorded at fair value less estimated selling costs upon acquisition and is included in other assets in the consolidated balance sheet. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the

carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains (losses) on other property owned in the statements of comprehensive income.

- G. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized. Long-lived assets are reviewed for impairment whenever events or circumstances indicate the carrying amount of an asset group may not be recoverable.
- H. Advance Conditional Payments: The Association is authorized under the Act to accept advance payments from borrowers. To the extent that the borrower's access to such funds is restricted, the advance conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheet. Advance conditional payments are not insured. Interest is generally paid by the Association on such accounts at rates established by the board of directors.
- I. Employee Benefit Plans: Employees of the Association participate in either the district defined benefit retirement plan (DB plan) or the defined contribution plan (DC plan). All eligible employees may participate in the Farm Credit Benefits Alliance 401(k) Plan. Also, the Association sponsors a nonqualified defined contribution 401(k) plan. The DB plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB plan is noncontributory and provides benefits based on salary and years of service. The "projected unit credit" actuarial method is used for financial reporting and funding purposes for the DB plan.

Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC plan direct the placement of their employers' contributions, 5.0 percent of eligible pay for the year ended December 31, 2022, 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 \$834,811, \$812,662 and \$708,776 for the years ended December 31, 2022, 2021 and 2020 respectively. For the DB plan, the Association recognized pension costs of \$425,097, \$632,970 and \$238,309 for the years ended December 31, 2022, 2021 and 2020, respectively.

The Association also participates in the Farm Credit Benefits Alliance 401(k) Plan, which requires the associations to match 100 percent of employee contributions up to 3.0 percent of eligible earnings and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The Association's contributions to the 401(k) plan were \$608,680, \$608,554 and \$530,177 for the years ended December 31, 2022, 2021 and 2020, 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 \$60,331, \$132,302 and \$4,827 for the years ended December 31, 2022, 2021 and 2020, respectively.

In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as 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. The Association has no valuation allowance on its net deferred tax assets because management estimates a full utilization of these assets.

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

The Association has not provided deferred income taxes on amounts allocated to the Association 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 15, "Fair Value Measurements."

- M. Off-balance-sheet credit exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional

commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management’s assessment of the customer’s creditworthiness.

NOTE 3 — INVESTMENTS:

Held-to-Maturity Investments:

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

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

| December 31, 2022 | | | | | |
|---|-------------------|-------------------------------|------------|---------------------------|--------------------------|
| | Amortized Cost | Gross Unrealized Losses | Fair Value | Weighted Average Yield | Weighted Average Life |
| Agricultural mortgage-backed securities | \$ 424,737 | \$ (16,159) | \$ 408,578 | 5.80% | 4.64 Years |

| December 31, 2021 | | | | | |
|---|-------------------|------------------------------|------------|---------------------------|--------------------------|
| | Amortized Cost | Gross Unrealized Gains | Fair Value | Weighted Average Yield | Weighted Average Life |
| Agricultural mortgage-backed securities | \$ 734,626 | \$ 21,909 | \$ 756,535 | 5.30% | 3.97 Years |

| December 31, 2020 | | | | | |
|---|-------------------|------------------------------|--------------|---------------------------|--------------------------|
| | Amortized Cost | Gross Unrealized Gains | Fair Value | Weighted Average Yield | Weighted Average Life |
| Agricultural mortgage-backed securities | \$ 1,054,100 | \$ 34,001 | \$ 1,088,101 | 5.32% | 4.40 Years |

As more fully discussed in Note 2, “Summary of Significant Accounting Policies,” the guidance for other-than-temporary impairment contemplates numerous factors in determining whether an impairment is other-than-temporary, including: (i) whether or not an entity intends to sell the security, (ii) whether it is more likely than not that an entity would be required to sell the security before recovering its costs or (iii) whether or not an entity expects to recover the security’s entire amortized cost basis (even if it does not intend to sell). There were no other-than-temporarily impaired (OTTI) securities at December 31, 2022.

NOTE 4 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

| Loan Type | 2022 | | 2021 | | 2020 | |
|----------------------------------|------------------------|---------------|-------------------------|---------------|-------------------------|---------------|
| | Amount | % | Amount | % | Amount | % |
| Real estate mortgage | \$1,801,949,287 | 81.3% | \$ 1,635,980,127 | 81.2% | \$ 1,185,059,563 | 75.9% |
| Production and intermediate term | 257,966,403 | 11.6% | 226,249,957 | 11.2% | 228,840,523 | 14.6% |
| Agribusiness: | | | | | | |
| Processing and marketing | 69,301,464 | 3.1% | 71,151,825 | 3.5% | 84,433,768 | 5.4% |
| Farm-related business | 36,011,762 | 1.6% | 33,817,546 | 1.7% | 23,777,888 | 1.5% |
| Loans to cooperatives | 22,640,041 | 1.0% | 20,354,200 | 1.0% | 14,191,543 | 0.9% |
| Communication | 16,267,788 | 0.7% | 16,117,601 | 0.8% | 19,806,739 | 1.3% |
| Water and waste water | 7,073,081 | 0.3% | 3,096,879 | 0.2% | 2,083,988 | 0.1% |
| Agricultural export finance | 3,440,131 | 0.2% | 4,086,388 | 0.2% | - | 0.0% |
| Energy | 1,858,635 | 0.1% | 2,080,747 | 0.1% | 2,288,383 | 0.1% |
| Rural residential real estate | 1,070,269 | 0.1% | 1,135,612 | 0.1% | 1,198,047 | 0.1% |
| Mission-related investments | 799,384 | 0.0% | 848,022 | 0.0% | 1,579,523 | 0.1% |
| Total | <u>\$2,218,378,245</u> | <u>100.0%</u> | <u>\$ 2,014,918,904</u> | <u>100.0%</u> | <u>\$ 1,563,259,965</u> | <u>100.0%</u> |

At December 31, 2022, the Association held loans totaling \$718,003 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, 2022:

| | Other Farm Credit Institutions | | Non-Farm Credit Institutions | | Total | |
|----------------------------------|--------------------------------|----------------------|------------------------------|---------------------|--------------------------|----------------------|
| | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold |
| | Real estate mortgage | \$ 51,457,270 | \$ 93,168,605 | \$ 9,729,444 | \$ 1,700,000 | \$ 61,186,714 |
| Production and intermediate term | 33,490,005 | 34,444,982 | - | - | 33,490,005 | 34,444,982 |
| Agribusiness | 87,364,338 | 516,805 | - | - | 87,364,338 | 516,805 |
| Communication | 16,267,788 | - | - | - | 16,267,788 | - |
| Water and waste water | 7,073,081 | - | - | - | 7,073,081 | - |
| Agricultural export finance | 3,440,131 | - | - | - | 3,440,131 | - |
| Energy | 1,858,635 | - | - | - | 1,858,635 | - |
| Total | <u>\$200,951,248</u> | <u>\$128,130,392</u> | <u>\$ 9,729,444</u> | <u>\$ 1,700,000</u> | <u>\$210,680,692</u> | <u>\$129,830,392</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 | 2022 | 2021 | 2020 |
|---------------|---------------|---------------|---------------|
| Hidalgo | 4.4% | 4.4% | 5.7% |
| Henderson | 2.9% | 2.5% | 2.1% |
| Fayette | 2.8% | 2.6% | 2.8% |
| Nueces | 2.8% | 2.1% | 2.6% |
| Washington | 2.4% | 2.4% | 3.0% |
| Grayson | 2.3% | 2.1% | 1.4% |
| Frio | 2.1% | 2.1% | 1.5% |
| Cameron | 2.0% | 1.9% | 1.6% |
| Bandera | 1.8% | 2.2% | 2.4% |
| Other | 76.5% | 77.7% | 76.9% |
| Totals | 100.0% | 100.0% | 100.0% |

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 | 2022 | | 2021 | | 2020 | |
|--|-------------------------|---------------|-------------------------|---------------|-------------------------|---------------|
| | Amount | % | Amount | % | Amount | % |
| Crops and Agricultural Commodities | \$ 741,232,745 | 33.5% | \$ 630,897,410 | 31.3% | \$ 506,506,051 | 32.4% |
| Livestock | 681,005,644 | 30.7% | 492,516,890 | 24.4% | 371,794,513 | 23.8% |
| Hunting, Trapping and Game Propagation | 579,150,329 | 26.0% | 690,592,383 | 34.3% | 473,507,832 | 30.3% |
| Farm-Related Operations | 215,896,912 | 9.8% | 199,521,719 | 9.9% | 209,713,712 | 13.4% |
| Rural Home Loans | 1,092,615 | 0.0% | 1,390,502 | 0.1% | 1,737,857 | 0.1% |
| Total | \$ 2,218,378,245 | 100.0% | \$ 2,014,918,904 | 100.0% | \$ 1,563,259,965 | 100.0% |

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

To mitigate the risk of loan losses, the Association has obtained loan guarantees in the form of standby commitments to purchase qualifying loans from Farmer Mac through an arrangement with the Bank. The agreements, which will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of defaults (typically four months past due), subject to certain conditions. At December 31, 2022, 2021 and 2020, loans totaling \$537,710,727, \$310,635,666 and \$65,501,248, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled \$1,780,677, \$792,011 and \$184,883 in 2022, 2021 and 2020, respectively, and are included in other noninterest expense.

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

The following table presents information relating to impaired loans as of December 31:

| | <u>2022</u> | <u>2021</u> | <u>2020</u> |
|--|---------------------------------|--------------------------------|--------------------------------|
| Nonaccrual loans: | | | |
| Current as to principal and interest | \$ 7,834,223 | \$ 6,933,691 | \$ 4,169,351 |
| Past due | <u>2,668,951</u> | <u>1,384,167</u> | <u>2,473,935</u> |
| Total nonaccrual loans | 10,503,174 | 8,317,858 | 6,643,286 |
| Impaired accrual loans: | | | |
| Restructured accrual loans | - | 752,742 | 782,380 |
| Accrual loans 90 days or more past due | <u>1,598,991</u> | <u>20</u> | <u>4,549</u> |
| Total impaired accrual loans | 1,598,991 | 752,762 | 786,929 |
| Total impaired loans | <u>\$ 12,102,165</u> | <u>\$ 9,070,620</u> | <u>\$ 7,430,215</u> |

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

| | <u>December 31, 2022</u> | <u>December 31, 2021</u> | <u>December 31, 2020</u> |
|---|------------------------------|------------------------------|------------------------------|
| Nonaccrual loans: | | | |
| Real estate mortgage | \$ 4,577,106 | \$ 5,631,422 | \$ 3,905,786 |
| Production and intermediate term | 1,174,329 | 2,108,750 | 2,737,500 |
| Agribusiness | 4,306,286 | - | - |
| Energy | <u>445,453</u> | <u>577,686</u> | <u>-</u> |
| Total nonaccrual loans | 10,503,174 | 8,317,858 | 6,643,286 |
| Accruing restructured loans: | | | |
| Mission-related investments | - | 752,742 | 782,380 |
| Total accruing restructured loans | <u>-</u> | <u>752,742</u> | <u>782,380</u> |
| Accruing loans 90 days or more past due: | | | |
| Real estate mortgage | 144,591 | - | - |
| Production and intermediate term | 31 | 20 | 10 |
| Agribusiness | <u>1,454,369</u> | <u>-</u> | <u>4,539</u> |
| Total accruing loans 90 days or more past due | 1,598,991 | 20 | 4,549 |
| Total nonperforming loans | 12,102,165 | 9,070,620 | 7,430,215 |
| Other property owned | - | - | - |
| Total nonperforming assets | <u>\$ 12,102,165</u> | <u>\$ 9,070,620</u> | <u>\$ 7,430,215</u> |

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

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

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

| | <u>2022</u> | <u>2021</u> | <u>2020</u> |
|----------------------------------|----------------|----------------|----------------|
| Real estate mortgage | | | |
| Acceptable | 99.4 % | 98.8 % | 97.6 % |
| OAEM | 0.2 % | 0.6 % | 1.0 % |
| Substandard/doubtful | 0.4 % | 0.6 % | 1.4 % |
| | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| Production and intermediate term | | | |
| Acceptable | 97.8 % | 93.8 % | 91.6 % |
| OAEM | 1.3 % | 2.4 % | 3.4 % |
| Substandard/doubtful | 0.9 % | 3.8 % | 5.0 % |
| | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| Loans to cooperatives | | | |
| Acceptable | 100.0 % | 97.9 % | 100.0 % |
| OAEM | - % | 2.1 % | - % |
| Substandard/doubtful | - % | - % | - % |
| | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| Processing and marketing | | | |
| Acceptable | 92.1 % | 100.0 % | 96.1 % |
| OAEM | 1.7 % | - % | 3.9 % |
| Substandard/doubtful | 6.2 % | - % | - % |
| | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| Farm-related business | | | |
| Acceptable | 63.6 % | 59.2 % | 78.7 % |
| OAEM | - % | - % | - % |
| Substandard/doubtful | 36.4 % | 40.8 % | 21.3 % |
| | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| Communication | | | |
| Acceptable | 100.0 % | 100.0 % | 100.0 % |
| OAEM | - % | - % | - % |
| Substandard/doubtful | - % | - % | - % |
| | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| Energy | | | |
| Acceptable | 76.0 % | 72.2 % | 69.6 % |
| OAEM | - % | - % | - % |
| Substandard/doubtful | 24.0 % | 27.8 % | 30.4 % |
| | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| Water and waste water | | | |
| Acceptable | 100.0 % | 100.0 % | 100.0 % |
| OAEM | - % | - % | - % |
| Substandard/doubtful | - % | - % | - % |
| | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| Rural residential real estate | | | |
| Acceptable | 58.1 % | 57.6 % | 57.2 % |
| OAEM | 33.6 % | 33.7 % | 42.8 % |
| Substandard/doubtful | 8.3 % | 8.7 % | - % |
| | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| Agricultural export finance | | | |
| Acceptable | 100.0 % | 100.0 % | - % |
| OAEM | - % | - % | - % |
| Substandard/doubtful | - % | - % | - % |
| | <u>100.0 %</u> | <u>100.0 %</u> | <u>- %</u> |
| Mission-related investments | | | |
| Acceptable | 100.0 % | 100.0 % | 100.0 % |
| OAEM | - % | - % | - % |
| Substandard/doubtful | - % | - % | - % |
| | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| Total Loans | | | |
| Acceptable | 98.4 % | 97.6 % | 96.4 % |
| OAEM | 0.4 % | 0.8 % | 1.5 % |
| Substandard/doubtful | 1.2 % | 1.6 % | 2.1 % |
| | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |

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

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

| December 31, 2022: | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or less than 30 Days Past Due | Total Loans | Recorded Investment >90 Days and Accruing |
|----------------------------------|---------------------------|--------------------------------|----------------------|--|-------------------------|--|
| Real estate mortgage | \$ 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 | - |
| Total | \$ 8,495,214 | \$ 1,945,335 | \$ 10,440,549 | \$ 2,226,084,659 | \$ 2,236,525,208 | \$ 1,598,991 |

| December 31, 2021: | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or less than 30 Days Past Due | Total Loans | Recorded Investment >90 Days and Accruing |
|----------------------------------|---------------------------|--------------------------------|----------------------|--|-------------------------|--|
| Real estate mortgage | \$ 3,659,495 | \$ 1,297,005 | \$ 4,956,500 | \$ 1,640,554,214 | \$ 1,645,510,714 | \$ - |
| Production and intermediate term | 110,531 | 20 | 110,551 | 228,244,293 | 228,354,844 | 20 |
| Processing and marketing | - | - | - | 71,306,910 | 71,306,910 | - |
| Farm-related business | - | - | - | 34,392,410 | 34,392,410 | - |
| Loans to cooperatives | 752,071 | - | 752,071 | 19,901,018 | 20,653,089 | - |
| Communication | - | - | - | 16,118,435 | 16,118,435 | - |
| Agricultural export finance | - | - | - | 4,092,141 | 4,092,141 | - |
| Water and waste water | - | - | - | 3,098,268 | 3,098,268 | - |
| Energy | - | - | - | 2,080,808 | 2,080,808 | - |
| Rural residential real estate | 99,977 | - | 99,977 | 1,040,119 | 1,140,096 | - |
| Mission-related investments | - | - | - | 853,092 | 853,092 | - |
| Total | \$ 4,622,074 | \$ 1,297,025 | \$ 5,919,099 | \$ 2,021,681,708 | \$ 2,027,600,807 | \$ 20 |

| December 31, 2020: | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or less than 30 Days Past Due | Total Loans | Recorded Investment >90 Days and Accruing |
|----------------------------------|---------------------------|--------------------------------|----------------------|--|-------------------------|--|
| Real estate mortgage | \$ 5,291,398 | \$ 1,402,379 | \$ 6,693,777 | \$ 1,186,108,205 | \$ 1,192,801,982 | \$ - |
| Production and intermediate term | 687,563 | 689,662 | 1,377,225 | 229,483,864 | 230,861,089 | 10 |
| Processing and marketing | - | - | - | 84,576,241 | 84,576,241 | - |
| Farm-related business | - | - | - | 23,893,922 | 23,893,922 | - |
| Loans to cooperatives | - | 4,539 | 4,539 | 14,505,313 | 14,509,852 | 4,539 |
| Communication | - | - | - | 19,807,802 | 19,807,802 | - |
| Energy | - | - | - | 2,288,775 | 2,288,775 | - |
| Water and waste water | - | - | - | 2,084,112 | 2,084,112 | - |
| Mission-related investments | - | - | - | 1,586,069 | 1,586,069 | - |
| Rural residential real estate | 109,917 | - | 109,917 | 1,092,841 | 1,202,758 | - |
| Total | \$ 6,088,878 | \$ 2,096,580 | \$ 8,185,458 | \$ 1,565,427,144 | \$ 1,573,612,602 | \$ 4,549 |

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

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

As of December 31, 2022, the total recorded investment of troubled debt restructured loans was \$35,983 and was classified as nonaccrual with no specific allowance. As of December 31, 2022, there were no commitments to lend funds to borrowers whose

loan terms have been modified in a trouble debt restructuring. There were no troubled debt restructurings that occurred during the years ended December 31, 2022, 2021 and 2020.

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). There were no charge-offs recorded for the year ending December 31, 2022.

The predominant form of concession granted for troubled debt restructuring includes modifications in which interest rates are lower than the borrower could otherwise receive in the market based on creditworthiness. Other types of modifications include extension of the term, principal or accrued interest reductions, interest rate decreases and delayed payments. At times these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case the Association assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

For the years ended December 31, 2022, 2021 and 2020, there were no loans that met the accounting criteria as a troubled debt restructuring and that occurred within the previous 12 months of that year and for which there was a payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

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

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

| | Loans Modified as TDRs | | |
|-------------------------------|------------------------|----------------------|----------------------|
| | December 31, 2022 | December 31, 2021 | December 31, 2020 |
| Troubled debt restructurings: | | | |
| Real estate mortgage | \$ 35,983 | \$ 85,984 | \$ - |
| Mission-related investments | - | 752,742 | 782,380 |
| Total | <u>\$ 35,983</u> | <u>\$ 838,726</u> | <u>\$ 782,380</u> |

| | Loans Modified as TDRs in Nonaccrual Status * | | |
|----------------------------------|---|----------------------|----------------------|
| | December 31, 2022 | December 31, 2021 | December 31, 2020 |
| Troubled debt restructurings: | | | |
| Real estate mortgage | \$ 35,983 | \$ 85,984 | \$ 128,183 |
| Production and intermediate term | - | - | 1,901,360 |
| Total | <u>\$ 35,983</u> | <u>\$ 85,984</u> | <u>\$ 2,029,543</u> |

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

Additional impaired loan information is as follows:

| | <u>Recorded Investment at 12/31/2022</u> | <u>Unpaid Principal Balance^a</u> | <u>Related Allowance</u> | <u>Average Impaired Loans</u> | <u>Interest Income Recognized</u> |
|--|--|---|------------------------------|---------------------------------------|---|
| Impaired loans with a related allowance for credit losses: | | | | | |
| Processing and marketing | \$ 4,300,035 | \$ 4,324,659 | \$ 600,000 | \$ 3,692,605 | \$ - |
| Energy and water/waste water | 445,453 | 445,453 | 104,303 | 528,235 | - |
| Rural residential real estate | - | - | - | - | - |
| Mission-related investments | - | - | - | - | 1,006 |
| Total | <u>\$ 4,745,488</u> | <u>\$ 4,770,112</u> | <u>\$ 704,303</u> | <u>\$ 4,220,840</u> | <u>\$ 1,006</u> |
| Impaired loans with no related allowance for credit losses: | | | | | |
| Real estate mortgage | \$ 4,721,697 | \$ 4,764,707 | \$ - | \$ 5,199,792 | \$ 156,251 |
| Production and intermediate term | 1,174,360 | 1,519,118 | - | 1,473,481 | 131,137 |
| Loans to cooperatives | 1,454,369 | 1,454,528 | - | 1,510,120 | 21,371 |
| Processing and marketing | 6,251 | 38,574 | - | 38,991 | - |
| Mission-related investments | - | - | - | - | 10,598 |
| Total | <u>\$ 7,356,677</u> | <u>\$ 7,776,927</u> | <u>\$ -</u> | <u>\$ 8,222,384</u> | <u>\$ 319,357</u> |
| Total impaired loans: | | | | | |
| Real estate mortgage | \$ 4,721,697 | \$ 4,764,707 | \$ - | \$ 5,199,792 | \$ 156,251 |
| Production and intermediate term | 1,174,360 | 1,519,118 | - | 1,473,481 | 131,137 |
| Loans to cooperatives | 1,454,369 | 1,454,528 | - | 1,510,120 | 21,371 |
| Processing and marketing | 4,306,286 | 4,363,233 | 600,000 | 3,731,596 | - |
| Energy and water/waste water | 445,453 | 445,453 | 104,303 | 528,235 | - |
| Mission-related investments | - | - | - | - | 11,604 |
| Total | <u>\$ 12,102,165</u> | <u>\$ 12,547,039</u> | <u>\$ 704,303</u> | <u>\$ 12,443,224</u> | <u>\$ 320,363</u> |

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

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

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

| | Recorded Investment at 12/31/2020 | Unpaid Principal Balance ^a | Related Allowance | Average Impaired Loans | Interest Income Recognized |
|--|---|---|----------------------|------------------------------|----------------------------------|
| Impaired loans with a related allowance for credit losses: | | | | | |
| Real estate mortgage | \$ 31,764 | \$ 31,764 | \$ 17,298 | \$ 18,493 | \$ - |
| Production and intermediate term | 87,127 | 88,710 | 20,924 | 72,760 | - |
| Mission-related investments | 52,702 | 52,003 | 17,330 | 52,344 | 4,213 |
| Total | <u>\$ 171,593</u> | <u>\$ 172,477</u> | <u>\$ 55,552</u> | <u>\$ 143,597</u> | <u>\$ 4,213</u> |
| Impaired loans with no related allowance for credit losses: | | | | | |
| Real estate mortgage | \$ 3,874,022 | \$ 3,955,118 | \$ - | \$ 3,880,891 | \$ 272,723 |
| Production and intermediate term | 2,650,383 | 3,422,698 | - | 2,999,339 | 26,850 |
| Loans to cooperatives | 4,539 | - | - | 107,073 | - |
| Mission-related investments | 729,678 | 722,339 | - | 731,925 | 44,650 |
| Total | <u>\$ 7,258,622</u> | <u>\$ 8,100,155</u> | <u>\$ -</u> | <u>\$ 7,719,228</u> | <u>\$ 344,223</u> |
| Total impaired loans: | | | | | |
| Real estate mortgage | \$ 3,905,786 | \$ 3,986,882 | \$ 17,298 | \$ 3,899,384 | \$ 272,723 |
| Production and intermediate term | 2,737,510 | 3,511,408 | 20,924 | 3,072,099 | 26,850 |
| Loans to cooperatives | 4,539 | - | - | 107,073 | - |
| Mission-related investments | 782,380 | 774,342 | 17,330 | 784,269 | 48,863 |
| Total | <u>\$ 7,430,215</u> | <u>\$ 8,272,632</u> | <u>\$ 55,552</u> | <u>\$ 7,862,825</u> | <u>\$ 348,436</u> |

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

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

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

| | 2022 | 2021 | 2020 |
|---|-------------------|---------------------|-------------------|
| Interest income which would have been recognized under the original terms | \$ 1,039,395 | \$ 1,863,198 | \$ 924,030 |
| Less: interest income recognized | (320,363) | (342,818) | (348,436) |
| Foregone interest income | <u>\$ 719,032</u> | <u>\$ 1,520,380</u> | <u>\$ 575,594</u> |

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

| | Real Estate Mortgage | Production and Intermediate Term | Agribusiness | Communication | Energy | Water and Waste Water | Rural Residential Real Estate | Agricultural Export Finance | Mission- Related Investments | Total |
|-------------------------------------|-------------------------|--|--------------|---------------|------------|-----------------------------|-------------------------------------|-----------------------------------|------------------------------------|--------------|
| Allowance for Credit Losses: | | | | | | | | | | |
| Balance at | | | | | | | | | | |
| December 31, 2021 | \$ 1,899,626 | \$ 761,376 | \$ 145,857 | \$ 18,606 | \$ 162,348 | \$ 3,577 | \$ 1,316 | \$ 4,724 | \$ 19,106 | \$ 3,016,536 |
| Charge-offs | - | - | - | - | - | - | - | - | - | - |
| 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 |

| | | | | | | | | | | |
|---|------|------|------------|------|------------|------|------|------|------|------------|
| Ending Balance: individually evaluated for impairment | \$ - | \$ - | \$ 600,000 | \$ - | \$ 104,303 | \$ - | \$ - | \$ - | \$ - | \$ 704,303 |
|---|------|------|------------|------|------------|------|------|------|------|------------|

| | | | | | | | | | | |
|---|--------------|------------|------------|-----------|----------|----------|--------|----------|--------|--------------|
| Ending Balance: collectively evaluated for impairment | \$ 1,579,691 | \$ 628,543 | \$ 112,761 | \$ 14,214 | \$ 1,625 | \$ 6,166 | \$ 935 | \$ 3,024 | \$ 700 | \$ 2,347,659 |
|---|--------------|------------|------------|-----------|----------|----------|--------|----------|--------|--------------|

| | | | | | | | | | | |
|--|------------------|----------------|----------------|---------------|--------------|--------------|--------------|--------------|------------|------------------|
| Recorded Investment in Loans Outstanding: | | | | | | | | | | |
| Ending Balance at | | | | | | | | | | |
| December 31, 2022 | \$ 1,814,613,218 | \$ 261,792,135 | \$ 129,497,614 | \$ 16,324,645 | \$ 1,866,118 | \$ 7,080,959 | \$ 1,074,322 | \$ 3,472,533 | \$ 803,664 | \$ 2,236,525,208 |
| Ending balance for loans individually evaluated for impairment | \$ 4,721,697 | \$ 1,174,360 | \$ 5,760,655 | \$ - | \$ 445,453 | \$ - | \$ - | \$ - | \$ - | \$ 12,102,165 |
| Ending balance for loans collectively evaluated for impairment | \$ 1,809,891,521 | \$ 260,617,775 | \$ 123,736,959 | \$ 16,324,645 | \$ 1,420,665 | \$ 7,080,959 | \$ 1,074,322 | \$ 3,472,533 | \$ 803,664 | \$ 2,224,423,043 |

| | Real Estate Mortgage | Production and Intermediate Term | Agribusiness | Communication | Energy | Water and Waste Water | Rural Residential Real Estate | Agricultural Export Finance | Mission- Related Investments | Total |
|-------------------------------------|-------------------------|--|--------------|---------------|------------|-----------------------------|-------------------------------------|-----------------------------------|------------------------------------|--------------|
| Allowance for Credit Losses: | | | | | | | | | | |
| Balance at | | | | | | | | | | |
| December 31, 2020 | \$ 2,610,698 | \$ 3,045,619 | \$ 267,403 | \$ 43,069 | \$ 4,976 | \$ 4,532 | \$ 2,615 | \$ - | \$ 20,779 | \$ 5,999,691 |
| Charge-offs | - | - | - | - | - | - | - | - | - | - |
| 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 |

| | | | | | | | | | | |
|---|------|------|------|------|------------|------|------|------|-----------|------------|
| Ending Balance: individually evaluated for impairment | \$ - | \$ - | \$ - | \$ - | \$ 159,946 | \$ - | \$ - | \$ - | \$ 18,121 | \$ 178,067 |
|---|------|------|------|------|------------|------|------|------|-----------|------------|

| | | | | | | | | | | |
|---|--------------|------------|------------|-----------|----------|----------|----------|----------|--------|--------------|
| Ending Balance: collectively evaluated for impairment | \$ 1,899,626 | \$ 761,376 | \$ 145,857 | \$ 18,606 | \$ 2,402 | \$ 3,577 | \$ 1,316 | \$ 4,724 | \$ 985 | \$ 2,838,469 |
|---|--------------|------------|------------|-----------|----------|----------|----------|----------|--------|--------------|

| | | | | | | | | | | |
|--|------------------|----------------|----------------|---------------|--------------|--------------|--------------|--------------|------------|------------------|
| Recorded Investment in Loans Outstanding: | | | | | | | | | | |
| Ending Balance at | | | | | | | | | | |
| December 31, 2021 | \$ 1,645,510,714 | \$ 228,354,844 | \$ 126,352,409 | \$ 16,118,435 | \$ 2,080,808 | \$ 3,098,268 | \$ 1,140,096 | \$ 4,092,141 | \$ 853,092 | \$ 2,027,600,807 |
| Ending balance for loans individually evaluated for impairment | \$ 5,631,422 | \$ 2,108,770 | \$ - | \$ - | \$ 577,686 | \$ - | \$ - | \$ - | \$ 752,742 | \$ 9,070,620 |
| Ending balance for loans collectively evaluated for impairment | \$ 1,639,879,292 | \$ 226,246,074 | \$ 126,352,409 | \$ 16,118,435 | \$ 1,503,122 | \$ 3,098,268 | \$ 1,140,096 | \$ 4,092,141 | \$ 100,350 | \$ 2,018,530,187 |

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

NOTE 5 — LEASES

The components of lease expense were as follows:

| | Classification | 2022 | 2021 | 2020 |
|-------------------------------------|--------------------|-------------------|-------------------|-------------------|
| Operating lease cost | Right-of-use asset | \$ 304,440 | \$ 142,642 | \$ 126,257 |
| Short-term lease cost | | 14,400 | 14,400 | 16,801 |
| Finance lease cost | | | | |
| Amortization of right-of-use assets | | (108,092) | (383) | 2,221 |
| Net lease cost | | <u>\$ 210,748</u> | <u>\$ 156,659</u> | <u>\$ 145,279</u> |

Other information related to leases was as follows:

| | 2022 | 2021 | 2020 |
|---|------------|------------|------------|
| Cash paid for amounts included in the measurement of lease liabilities: | | | |
| Operating cash flows for operating leases | \$ 196,348 | \$ 142,259 | \$ 128,478 |
| Right-of-use assets obtained in exchange for new lease obligations: | | | |
| Operating leases | \$ 304,440 | \$ 142,642 | \$ 126,257 |

Lease term and discount rate are as follows:

| | December 31, 2022 | December 31, 2021 | December 31, 2020 |
|--|-------------------|-------------------|-------------------|
| Weighted average remaining lease term in years | | | |
| Operating leases | 7.33 | 8.74 | 3.68 |
| Weighted average discount rate | | | |
| Operating leases | 4.01% | 1.16% | 1.30% |

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

| | <u>Operating Leases</u> |
|----------------------|-------------------------|
| 2023 | \$ 195,518 |
| 2024 | 193,746 |
| 2025 | 146,661 |
| 2026 | 91,966 |
| 2027 | 70,253 |
| Thereafter | <u>404,422</u> |
| Total lease payments | <u>\$ 1,102,566</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, 7.5 percent and 6.9 percent of the issued stock of the Bank as of December 31, 2022, 2021 and 2020. As of those dates, the Bank's assets totaled \$36.0 billion, \$33.1 billion and \$28.2 billion and members' equity totaled \$1.6 billion, \$2.0 billion and \$2.0 billion. The Bank's earnings were \$269.9 million, \$254.6 million and \$251.1 million during 2022, 2021 and 2020.

NOTE 7 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

| | <u>2022</u> | <u>2021</u> | <u>2020</u> |
|---------------------------------|----------------------|----------------------|----------------------|
| Land and improvements | \$ 2,218,870 | \$ 2,431,558 | \$ 2,431,558 |
| Building and improvements | 14,612,081 | 12,870,746 | 12,718,516 |
| Furniture and equipment | 1,326,021 | 1,200,331 | 1,617,521 |
| Computer equipment and software | 820,201 | 825,492 | 1,276,284 |
| Automobiles | 2,032,861 | 1,778,262 | 1,683,794 |
| Construction in progress | 3,254,385 | 1,458,527 | 49,656 |
| | <u>24,264,419</u> | <u>20,564,916</u> | <u>19,777,329</u> |
| Accumulated depreciation | (6,368,764) | (5,418,663) | (5,410,059) |
| Total | <u>\$ 17,895,655</u> | <u>\$ 15,146,253</u> | <u>\$ 14,367,270</u> |

The Association leased office space in Dallas, Rockwall, Laredo, McAllen, Prosper and Taft. Lease expense was \$196,348, \$142,259 and \$128,478 for 2022, 2021 and 2020, 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 \$1,102,566. See Note 5, "Leases," for further details.

NOTE 8 — OTHER PROPERTY OWNED, NET:

The Association held no properties requiring classification as other property owned during the years ended December 31, 2022 and 2021, respectively. Net gain (loss) on other property owned, net consists of the following for the years ended December 31:

| | <u>2020</u> |
|----------------------------------|--------------------|
| Gain on sale, net | \$ 7,887 |
| Operating expense, net | (75,207) |
| Net loss on other property owned | <u>\$ (67,320)</u> |

NOTE 9 — OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

| | <u>2022</u> | <u>2021</u> | <u>2020</u> |
|-------------------------------------|---------------------|---------------------|---------------------|
| Accounts receivable - other | \$ 27,209 | \$ 4,875,480 | \$ 26,691 |
| Intangible assets | 1,601,427 | 1,779,569 | 1,957,712 |
| Right-of-use asset - building lease | 934,186 | 1,018,551 | 380,068 |
| Nonqualified deferred compensation | 475,408 | 585,429 | 536,199 |
| Prepaid expenses | 310,485 | 47,059 | 117,481 |
| Farmer Mac stock | 8,000 | 8,000 | 8,000 |
| Miscellaneous assets | 6,466 | 6,466 | - |
| Total | <u>\$ 3,363,181</u> | <u>\$ 8,320,554</u> | <u>\$ 3,026,151</u> |

Other liabilities comprised the following at December 31:

| | <u>2022</u> | <u>2021</u> | <u>2020</u> |
|------------------------------------|----------------------|----------------------|----------------------|
| Operating accounts payable | \$ 4,188,225 | \$ 8,253,167 | \$ 6,073,358 |
| Post-retirement benefits liability | 3,373,898 | 4,520,106 | 4,721,546 |
| Insurance payable | 3,685,870 | 2,374,492 | 1,098,201 |
| Lease liability - building leases | 934,186 | 1,018,551 | 380,068 |
| Accrued annual leave | 950,879 | 869,426 | 846,716 |
| Allowance on unfunded loans | 203,392 | 239,552 | 271,500 |
| Miscellaneous liabilities | 30,805 | 50,913 | 81,871 |
| Federal income taxes payable | (1,791) | - | 156,446 |
| Total | <u>\$ 13,365,464</u> | <u>\$ 17,326,207</u> | <u>\$ 13,629,706</u> |

The Association owns three crop insurance agencies within its territory. One agency was purchased in August 2018 for \$572,140, one agency was purchased in September 2017 for \$1,500,000 and one agency was purchased in March 2016 for \$600,000. All three purchases are classified as contractual relationship intangible assets based on the expected future benefit of customer contracts. Amortization of \$178,142 was recorded for 2022 and amortization of \$178,142 per year is estimated over the five succeeding fiscal years. At December 31, 2022, the balance of these intangible assets after amortization reported was \$1,601,427.

NOTE 10 — NOTE PAYABLE TO THE BANK:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process. The Association's indebtedness to the Bank represents borrowings by the Association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a general financing agreement. The interest rate on the direct loan is based upon the Bank's cost of funding the loans the Association has outstanding to its borrowers. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2023, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The total amount and the weighted average interest rate of the Association's direct loan from the Bank at December 31, 2022, 2021 and 2020, was \$1,991,062,303 at 2.33 percent, \$1,804,831,571 at 1.91 percent and \$1,364,703,280 at 2.29 percent, respectively.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2022, 2021 and 2020, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2022, was \$2,225,158,823, as defined by the general financing agreement.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt, and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the general financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits or repayment of indebtedness. As of and for the years ended December 31, 2022, 2021 and 2020, the Association was not subject to remedies associated with the covenants in the general financing agreement.

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

NOTE 11 — MEMBERS' EQUITY:

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

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

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

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

In accordance with the Act and the Association's capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. The investment in Class B capital stock (in the case of agricultural loans to producers) or participation certificates (in the purchase of rural home loans and farm-related business loans) is equal to 2 percent of the loan amount, up to a maximum amount of \$1,000. The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually by adding the aggregate par value of the capital stock or participation certificates to the principal amount of the related loan obligation. The capital stock or participation certificates are subject to a first lien by the Association. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding capital stock or participation certificates.

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

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

Borrowers who wish to retain their investment in the Association after liquidating their loan balance may convert their Class B capital stock holdings to Class A capital stock. Within two years of repayment of a loan, the Association capital bylaws require the conversion of any borrower's outstanding Class B to Class A capital stock. Class A stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of all stock shares is made solely at the discretion of the Association's board of directors. At December 31, 2022, 2021 and 2020, the Association had \$62,965, \$14,415 and \$521,375, respectively, of Class A stock.

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

Patronage distributions may be paid on the capital stock and participation certificates of the Association, as the board of directors may determine by resolution, subject to capitalization requirements as defined by the FCA. Amounts declared but not distributed in cash are retained as allocated and unallocated retained earnings based on the classification of the distribution as qualified or nonqualified. The following dividends and patronage distributions were declared and paid in 2022, 2021 and 2020, respectively:

| <u>Date Declared</u> | <u>Date Paid or Payable</u> | <u>Total Patronage</u> |
|----------------------|---------------------------------|----------------------------|
| 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 |
| December 2020 | December 2020 | \$ 6,173,974 |
| December 2019 | April 2020 | \$ 20,590,000 |

The Farm Credit Administration sets minimum regulatory capital requirements for banks and associations. Effective January 1, 2017, new regulatory capital requirements for banks and associations were adopted. These new requirements replaced the core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 Capital and Total Capital risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System banks with a Tier 1 Leverage ratio and an Unallocated Retained Earnings (URE) and URE Equivalents Leverage ratio that are applicable to both the banks and associations. The Permanent Capital Ratio continues to remain in effect; however, the risk-weighted assets are calculated differently than in the past. As of December 31, 2022, 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, 2022:

| <u>Risk-weighted:</u> | <u>Regulatory Minimums</u> | <u>Regulatory Minimums with Buffer</u> | <u>As of December 31, 2022</u> |
|----------------------------|--------------------------------|--|------------------------------------|
| Common equity tier 1 ratio | 4.50% | 7.00% | 12.55% |
| Tier 1 capital ratio | 6.00% | 8.50% | 12.55% |
| Total capital ratio | 8.00% | 10.50% | 12.72% |
| Permanent capital ratio | 7.00% | 7.00% | 12.57% |
| <u>Non-risk-weighted:</u> | | | |
| Tier 1 leverage ratio | 4.00% | 5.00% | 10.53% |
| UREE leverage ratio | 1.50% | 1.50% | 7.88% |

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 generally have the impact of increasing risk-weighted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

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

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

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 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 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 revolvement less certain regulatory required deductions including the amount of allocated investments in other System associations divided by average assets less regulatory deductions subject to tier 1 capital.

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

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

| (dollars in thousands) | Common equity tier 1 ratio | Tier 1 capital ratio | Total capital ratio | Permanent capital ratio |
|---|----------------------------------|-------------------------|-------------------------|----------------------------|
| Numerator: | | | | |
| Unallocated retained earnings | \$ 95,581,068 | \$ 95,581,068 | \$ 95,581,068 | \$ 95,581,068 |
| Paid-in capital | 47,596,495 | 47,596,495 | 47,596,495 | 47,596,495 |
| Common Cooperative Equities: | | | | |
| Statutory minimum purchased borrower stock | 4,588,456 | 4,588,456 | 4,588,456 | 4,588,456 |
| Allocated equities: | | | | |
| Allocated equities held ≥ 7 | 54,517,951 | 54,517,951 | 54,517,951 | 54,517,951 |
| 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* | - | - | 3,086,754 | - |
| Regulatory Adjustments and Deductions: | | | | |
| Amount of allocated investments in other System institutions | (31,007,881) | (31,007,881) | (31,007,881) | (31,007,881) |
| Other regulatory required deductions | (1,771,652) | (1,771,652) | (1,771,652) | (1,771,652) |
| | <u>\$ 234,441,779</u> | <u>\$ 234,441,779</u> | <u>\$ 237,528,533</u> | <u>\$ 234,441,779</u> |
| Denominator: | | | | |
| Risk-adjusted assets excluding allowance | \$ 1,900,248,349 | \$ 1,900,248,349 | \$ 1,900,248,349 | \$ 1,900,248,349 |
| Regulatory Adjustments and Deductions: | | | | |
| Regulatory deductions included in total capital | (32,779,533) | (32,779,533) | (32,779,533) | (32,779,533) |
| Allowance for loan losses | - | - | - | (2,920,117) |
| | <u>\$ 1,867,468,816</u> | <u>\$ 1,867,468,816</u> | <u>\$ 1,867,468,816</u> | <u>\$ 1,864,548,699</u> |
| Calculated Ratio | 12.55% | 12.55% | 12.72% | 12.57% |

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

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

| (dollars in thousands) | Tier 1 leverage ratio | UREE leverage ratio |
|--|--------------------------|-------------------------|
| Numerator: | | |
| Unallocated retained earnings | \$ 95,581,068 | \$ 95,581,068 |
| Paid-in capital | 47,596,495 | 47,596,495 |
| Common Cooperative Equities: | | |
| Statutory minimum purchased borrower stock | 4,588,456 | - |
| Allocated equities: | | |
| Allocated equities held ≥ 7 | 54,517,951 | - |
| 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 | (31,007,881) | (31,007,881) |
| Other regulatory required deductions | (1,771,652) | (1,771,652) |
| | <u>\$ 234,441,779</u> | <u>\$ 175,335,372</u> |
| Denominator: | | |
| Total Assets | \$ 2,269,439,412 | \$ 2,269,439,412 |
| Regulatory Adjustments and Deductions: | | |
| Regulatory deductions included in tier 1 capital | (43,923,640) | (43,923,640) |
| | <u>\$ 2,225,515,772</u> | <u>\$ 2,225,515,772</u> |
| Calculated ratio | 10.53% | 7.88% |

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>2022</u> | <u>2021</u> | <u>2020</u> |
|----------------------------|----------------|----------------|----------------|
| Class A stock | 12,593 | 2,883 | 104,275 |
| Class B stock | 897,675 | 863,327 | 724,105 |
| Participation certificates | 5,769 | 6,769 | 6,569 |
| Total | <u>916,037</u> | <u>872,979</u> | <u>834,949</u> |

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

| Accumulated Other Comprehensive Income (Loss) | |
|--|---------------------|
| 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> |
| | |
| December 31, 2020 | <u>Net of Tax</u> |
| Nonpension postretirement benefits | <u>\$ (580,789)</u> |

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

| | <u>2022</u> | <u>2021</u> | <u>2020</u> |
|--|-------------------|---------------------|---------------------|
| Accumulated other comprehensive loss at January 1 | \$ (315,716) | \$ (580,789) | \$ (710,138) |
| Actuarial gains | 1,199,035 | 262,337 | 110,379 |
| Amortization of prior service credit included in salaries and employee benefits | (21,716) | (21,716) | (21,716) |
| Amortization of actuarial loss included in salaries and employee benefits | - | 24,452 | 40,686 |
| Other comprehensive income, net of tax | <u>1,177,319</u> | <u>265,073</u> | <u>129,349</u> |
| Accumulated other comprehensive income at December 31 | <u>\$ 861,603</u> | <u>\$ (315,716)</u> | <u>\$ (580,789)</u> |

NOTE 12 — INCOME TAXES:

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

| | <u>2022</u> | <u>2021</u> | <u>2020</u> |
|----------------------------------|------------------|-------------------|-------------------|
| Current: | | | |
| Federal | \$ 37,522 | \$ 110,844 | \$ 143,242 |
| Deferred: | | | |
| Federal | 35,984 | 512,384 | (3,439) |
| Total provision for income taxes | <u>\$ 73,506</u> | <u>\$ 623,228</u> | <u>\$ 139,803</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>2022</u> | <u>2021</u> | <u>2020</u> |
|---|------------------|-------------------|-------------------|
| Federal tax at statutory rate | \$ 9,854,453 | \$ 9,689,521 | \$ 7,228,055 |
| Effect of nontaxable FLCA subsidiary | (8,391,865) | (8,243,383) | (6,097,009) |
| Patronage distributions | (1,312,500) | (826,560) | (1,018,500) |
| Other | (76,582) | 3,650 | 27,257 |
| Provision for (benefit from) income taxes | <u>\$ 73,506</u> | <u>\$ 623,228</u> | <u>\$ 139,803</u> |

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

| | <u>2022</u> | <u>2021</u> | <u>2020</u> |
|--------------------------------|-------------------|-------------------|-------------------|
| <u>Deferred Tax Assets</u> | | | |
| Allowance for loan losses | \$ 163,570 | \$ 199,554 | \$ 686,891 |
| Postretirement benefits, other | - | - | 25,047 |
| Gross deferred tax assets | <u>\$ 163,570</u> | <u>\$ 199,554</u> | <u>\$ 711,938</u> |

The calculation of tax assets and liabilities involves various management estimates and assumptions as to the future taxable earnings. At December 31, 2022, non-patronage income is expected to be 10.1 percent of total taxable income (before patronage) and patronage income retained is expected to be retained by the Association on a tax basis. The expected future tax rates are based upon enacted tax laws.

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

The ACA is required to maintain an investment in the Bank of 2 percent of the average direct note. This investment can be held by both the PCA and FLCA. A deferred tax liability is established for the PCA for any excess investment in the Bank over that allocated to the 2 percent investment requirement. Upon formation of the ACA, additional amounts of excess investment previously held by the PCA were included in the calculation of the 2 percent requirement of the ACA. The PCA did not hold any excess investment as of December 31, 2022, 2021 and 2020, respectively.

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

NOTE 13 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: Employees of the Association participate in either the defined benefit retirement plan (DB plan) or the defined contributions plan (DC plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. These plans are described more fully in section I of Note 2, “Summary of Significant Accounting Policies.” The structure of the district’s DB plan is characterized as 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 plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon district combination only. The Association records current contributions to the DB plan as an expense in the current year.

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

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

The Association elected to participate in the district’s nonqualified contribution 401(k) plan, although participation from qualifying employees was limited. Contributions of \$60,331, \$132,302 and \$4,827 were made to this plan for the years ended December 31, 2022, 2021 and 2020. There were no payments made from the supplemental 401(k) plan to active employees during 2022, 2021 and 2020.

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

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

- a. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c. If the Association chooses to stop participating in some of its multi-employer plans, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

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

| | <u>2022</u> | <u>2021</u> | <u>2020</u> |
|---|-------------------|-------------|-------------|
| Funded status of plan | 70.9% | 70.5% | 62.6% |
| Association's contribution | \$ 425,097 | \$ 632,970 | \$ 238,309 |
| Percentage of Association's contribution to total contributions | 4.1% | 4.2% | 4.0% |

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

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

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

Retiree Welfare Benefit Plans

| Disclosure Information Related to Retirement Benefits | 2022 | 2021 | 2020 |
|---|----------------|----------------|----------------|
| Change in Accumulated Postretirement Benefit Obligation | | | |
| Accumulated postretirement benefit obligation, beginning of year | \$ 4,520,106 | \$ 4,721,546 | \$ 4,751,534 |
| Service cost | 45,320 | 59,146 | 57,210 |
| Interest cost | 139,834 | 130,116 | 161,252 |
| Plan participants' contributions | 30,083 | 33,971 | 28,752 |
| Actuarial gain | (1,199,035) | (262,337) | (110,379) |
| Benefits paid | (162,410) | (162,336) | (166,823) |
| Accumulated postretirement benefit obligation, end of year | \$ 3,373,898 | \$ 4,520,106 | \$ 4,721,546 |
| Change in Plan Assets | | | |
| Company contributions | \$ 132,327 | \$ 128,365 | \$ 138,071 |
| Plan participants' contributions | 30,083 | 33,971 | 28,752 |
| Benefits paid | (162,410) | (162,336) | (166,823) |
| Plan assets at fair value, end of year | \$ - | \$ - | \$ - |
| Funded status of the plan | \$ (3,373,898) | \$ (4,520,106) | \$ (4,721,546) |
| Amounts Recognized on the Balance Sheets | | | |
| Other liabilities | \$ (3,373,898) | \$ (4,520,106) | \$ (4,721,546) |
| Amounts Recognized in Accumulated Other Comprehensive Income | | | |
| Net actuarial (gain) loss | \$ (798,409) | \$ 400,626 | \$ 687,415 |
| Prior service credit | (63,194) | (84,910) | (106,626) |
| Total | \$ (861,603) | \$ 315,716 | \$ 580,789 |
| Weighted-Average Assumptions Used to Determine Obligations at Year-End | | | |
| Measurement date | 12/31/2022 | 12/31/2021 | 12/31/2020 |
| Discount rate | 5.20% | 3.15% | 2.80% |
| Health care cost trend rate assumed for next year (pre-/post-65) - medical | 7.20%/7.70% | 6.80%/6.00% | 6.90%/6.40% |
| 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 |

| Total Cost | 2022 | 2021 | 2020 |
|---------------------------------|-------------|-------------|-------------|
| Service cost | \$ 45,320 | \$ 45,320 | \$ 57,210 |
| Interest cost | 139,834 | 139,834 | 161,252 |
| Amortization of: | | | |
| Unrecognized prior service cost | (21,716) | (21,716) | (21,716) |
| Unrecognized net loss | - | - | 40,686 |
| Net postretirement benefit cost | \$ 163,438 | \$ 163,438 | \$ 237,432 |

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

| | | | |
|--|----------------|--------------|--------------|
| Net actuarial gain | \$ (1,199,035) | \$ (262,337) | \$ (110,379) |
| Amortization of net actuarial gain | - | (24,452) | (40,686) |
| Amortization of prior service cost | 21,716 | 21,716 | 21,716 |
| Total recognized in other comprehensive income | \$ (1,177,319) | \$ (265,073) | \$ (129,349) |

AOCI Amounts Expected to be Amortized Into Expense in 2023

| | | | |
|---------------------------------|-------------|-------------|-------------|
| Unrecognized prior service cost | \$ (21,716) | \$ (21,716) | \$ (21,716) |
| Unrecognized net (gain) loss | (54,949) | - | 24,452 |
| Total | \$ (76,665) | \$ (21,716) | \$ 2,736 |

Weighted-Average Assumptions Used to Determine Benefit Cost

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

Expected Future Cash Flows

| | 2022 | 2021 | 2020 |
|--|-------------|-------------|-------------|
| Expected Benefit Payments (net of employee contributions) | | | |
| Fiscal 2023 | \$ 160,977 | \$ 181,712 | \$ 179,731 |
| Fiscal 2024 | 168,597 | 185,438 | 186,063 |
| Fiscal 2025 | 178,816 | 193,426 | 193,769 |
| Fiscal 2026-2030 | 182,446 | 193,672 | 1,076,397 |
| Fiscal 2027-2031 | 198,078 | 1,103,525 | - |
| Fiscal 2028-2032 | 1,088,676 | - | - |

Expected Contributions

| | | | |
|-------------|------------|------------|------------|
| Fiscal 2023 | \$ 160,977 | \$ 181,712 | \$ 179,731 |
|-------------|------------|------------|------------|

NOTE 14 — 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, 2022, 2021 and 2020 for the Association amounted to \$44,375,083, \$34,083,701 and \$38,081,754. During 2022, 2021 and 2020, \$35,617,310, \$34,776,324 and \$44,316,710 of new loans were made, and repayments totaled \$30,877,139, \$36,773,120 and \$40,414,911, respectively. In the opinion of management, no such loans outstanding at December 31, 2022, 2021 and 2020 involved more than a normal risk of collectability.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems and accounting services and allocations of expenses incurred by the Bank and passed through to the associations, such as FCSIC expenses. The Bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled \$1,222,048, \$1,794,222 and \$1,109,619 in 2022, 2021 and 2020, respectively.

The Association received patronage payments from the Bank totaling \$15,805,180, \$13,972,755 and \$12,327,234 during 2022, 2021 and 2020, respectively.

NOTE 15 — FAIR VALUE MEASUREMENTS:

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

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

| December 31, 2022 | Fair Value Measurement Using | | |
|----------------------|------------------------------|---------|--------------|
| | Level 1 | Level 2 | Level 3 |
| Assets: | | | |
| Loans | \$ - | \$ - | \$ 4,047,437 |
| Other property owned | - | - | - |
| December 31, 2021 | Fair Value Measurement Using | | |
| | Level 1 | Level 2 | Level 3 |
| Assets: | | | |
| Loans | \$ - | \$ - | \$ 435,594 |
| Other property owned | - | - | - |
| December 31, 2020 | Fair Value Measurement Using | | |
| | Level 1 | Level 2 | Level 3 |
| Assets: | | | |
| Loans | \$ - | \$ - | \$ 100,575 |
| Other property owned | - | - | - |

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

| December 31, 2022 | | | | | |
|-------------------------------------|----------------------------------|----------------------------|--------------------|--------------------------------|--------------------------------|
| Fair Value Measurement Using | | | | | |
| | Total Carrying Amount | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Assets: | | | | | |
| Cash | \$ 26,159 | \$ 26,159 | \$ - | \$ - | \$ 26,159 |
| Investments | 424,737 | - | - | 408,578 | 408,578 |
| Net loans | <u>2,210,779,072</u> | <u>-</u> | <u>-</u> | <u>2,012,827,714</u> | <u>2,012,827,714</u> |
| Total Assets | <u><u>\$ 2,211,229,968</u></u> | <u><u>\$ 26,159</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 2,013,236,292</u></u> | <u><u>\$ 2,013,262,451</u></u> |
| Liabilities: | | | | | |
| Note payable to Bank | <u><u>\$ 1,991,062,303</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 1,812,722,596</u></u> | <u><u>\$ 1,812,722,596</u></u> |
| December 31, 2021 | | | | | |
| Fair Value Measurement Using | | | | | |
| | Total Carrying Amount | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Assets: | | | | | |
| Cash | \$ 49,663 | \$ 49,663 | \$ - | \$ - | \$ 49,663 |
| Investments | 734,626 | - | - | 756,535 | 756,535 |
| Net loans | <u>2,011,783,083</u> | <u>-</u> | <u>-</u> | <u>1,996,203,517</u> | <u>1,996,203,517</u> |
| Total Assets | <u><u>\$ 2,012,567,372</u></u> | <u><u>\$ 49,663</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 1,996,960,052</u></u> | <u><u>\$ 1,997,009,715</u></u> |
| Liabilities: | | | | | |
| Note payable to Bank | <u><u>\$ 1,804,831,571</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 1,790,705,972</u></u> | <u><u>\$ 1,790,705,972</u></u> |
| December 31, 2020 | | | | | |
| Fair Value Measurement Using | | | | | |
| | Total Carrying Amount | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Assets: | | | | | |
| Cash | \$ 2,373,598 | \$ 2,373,598 | \$ - | \$ - | \$ 2,373,598 |
| Investments | 1,054,100 | - | - | 1,088,101 | 1,088,101 |
| Net loans | <u>1,557,334,114</u> | <u>-</u> | <u>-</u> | <u>1,579,149,486</u> | <u>1,579,149,486</u> |
| Total Assets | <u><u>\$ 1,560,761,812</u></u> | <u><u>\$ 2,373,598</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 1,580,237,587</u></u> | <u><u>\$ 1,582,611,185</u></u> |
| Liabilities: | | | | | |
| Note payable to Bank | <u><u>\$ 1,364,703,280</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 1,383,711,395</u></u> | <u><u>\$ 1,383,711,395</u></u> |

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

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

Valuation Techniques

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

Investments

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

Assets Held in Nonqualified Benefits Trusts

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

Standby Letters of Credit

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

Loans Evaluated for Impairment

For certain loans evaluated for impairment under impairment guidance, the fair value is based upon the underlying collateral 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 16 — COMMITMENTS AND CONTINGENCIES:

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

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2022, \$307,530,933 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 sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

NOTE 17 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

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

| | 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 | \$ 10,801 | \$ 12,799 | \$ 12,129 | \$ 11,090 | \$ 46,819 |

| | 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 | \$ 9,691 | \$ 13,706 | \$ 11,675 | \$ 10,445 | \$ 45,517 |

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

NOTE 18 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through March 10, 2023 which is the date the financial statements were issued or available to be issued and has determined that there were no other events requiring disclosure.

DISCLOSURE INFORMATION AND INDEX

(Unaudited)

Disclosures Required by Farm Credit Administration Regulations

DESCRIPTION OF BUSINESS

The description of the territory served, the 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 20 branch lending offices, three administrative offices, three crop insurance offices and two satellite offices located throughout the territory. The Association owns the Bandera, Beaumont, Bonham, Brenham, Fairfield, Nacogdoches, Pleasanton, Raymondville Crop Insurance, Raymondville Lending, Robstown Administrative, Robstown Branch, San Antonio, Sulphur Springs, Taft Crop Insurance, The Woodlands, Tyler Administrative, Tyler Branch, Uvalde and Weslaco offices, free of debt. The Association operates leased satellite offices in Dallas, Gainesville and McAllen. The Association leases offices for its lending operations in Rockwall, Laredo and Prosper.

LEGAL PROCEEDINGS

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

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference from Note 11 to the consolidated financial statements, "Members' Equity," included in this annual report.

DESCRIPTION OF LIABILITIES

The description of liabilities required to be disclosed in this section is incorporated herein by reference from Note 10, "Note Payable to the Bank," Note 13, "Employee Benefit Plans," and in "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Notes 2 and 16 to the consolidated financial statements, "Summary of Significant Accounting Policies" and "Commitments and Contingencies," respectively, included in this annual report.

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

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

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

The Association’s quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter-end and can be obtained by writing to 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 emailing kibrom@texasfcs.com The Association’s annual stockholder report is available on its website at www.texasfcs.com 75 days after the fiscal year-end. Copies of the Association’s annual stockholder report can also be requested 90 days after the fiscal year-end.

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2022, required to be disclosed, is incorporated herein by reference to the “Five-Year Summary of Selected Consolidated Financial Data” included in this annual report to stockholders.

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

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

DIRECTORS AND SENIOR OFFICERS

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

| NAME | POSITION | DATE | |
|----------------------|------------------------------------|----------------------|-----------------|
| | | ELECTED/ EMPLOYED | TERM EXPIRES |
| Thomas Barker | Director | 2012 | 2024 |
| Jerry Chappell | Director-Vice Chairman | 2013 | 2025 |
| James Dawley | Director | 2003 | 2023 |
| Marion Vines Durand | Director-Appointed Stockholder | 2012 | 2023 |
| Roxann Garvin | Director | 2019 | 2023 |
| David Henneke | Director-Appointed Non-Stockholder | 2005 | 2023 |
| Bobby Hobson | Director-Chairman | 2008 | 2025 |
| John Prukop | Director | 1990 | 2023 |
| Mark Reus | Director | 2018 | 2025 |
| Gregory T. Richbourg | Director-Appointed Non-Stockholder | 2010 | 2023 |
| Mark Miller | Chief Executive Officer | 1989 | --- |
| Keith A. Ibrom | Chief Financial Officer | 1999 | --- |
| John O'Brien, IV | Chief Credit Officer | 2000 | --- |
| John Parker | Chief Information Officer | 2003 | --- |
| Jolene Curtis | Chief Operations Officer | 2004 | --- |
| Lane Pepper | Chief Risk Officer | 2004 | --- |
| Joe Valladares | Chief Strategy Officer | 2005 | --- |
| Lori V. Graham | General Counsel | 2014 | --- |

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

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

Jerry Chappell resides in Lyford, Texas, and is a partner in Chappell Farms, a family partnership. They primarily farm cotton and grain. Mr. Chappell serves on the Willacy County Farm Bureau, which is a 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 the integrated pest

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

James Dawley, a resident of the Mexia, Texas area, was born and raised on a farm/ranch in Honest Ridge, Texas, in Limestone County. He currently runs a cow/calf operation in Limestone and Freestone counties and owns and operates Sheffield Farm and Ranch Supply in Mexia, Texas. Mr. Dawley is an officer for the Limestone County Farm Bureau, a support organization for agriculture, a director for the Farm Service 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.

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

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

David Henneke is a retired investment advisor with more than 20 years 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 baling 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 lives in Hondo, Texas, where he serves as the managing partner for Reus Grain, LP, a family operation. Reus Grain, LP cleans and processes grains for bagging and bulk delivery to wholesale and retail customers for deer and wildlife feeding.

Gregory T. Richbourg is an equal shareholder in the public accounting firm of Gollob Morgan Peddy PC in Tyler, Texas. Mr. Richbourg previously served as vice president of Richbourg & Associates, PC, CPA's from 1998 to its June 2014 merger with Gollob Morgan Peddy PC. Mr. Richbourg is a certified public accountant and a member of the American Institute and Texas Society of Certified Public Accountants. He currently serves on the boards of directors for several local 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 A. Miller has served as chief executive officer since January 1, 2013¹. Prior to this appointment, Mr. Miller served as executive vice president and chief credit officer. He has been with the organization since March 1989 when he accepted a position as loan officer and since that time has served as branch manager and chief operations officer. Mr. Miller also serves on the board of FCCS.

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

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

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

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

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

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

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

COMPENSATION OF DIRECTORS

Elected stockholder directors and appointed stockholder directors were compensated for their service to the Association in the form of an honorarium at the rate of \$650 per day for director meetings and committee meetings, and they were reimbursed for certain expenses incurred while representing the Association in an official capacity. Appointed non-stockholder directors were compensated for their service to the Association in the form of an honorarium at the rate of \$750 per day for director meetings and committee meetings, and they were reimbursed for certain expenses incurred while representing the Association in an official capacity. In addition to the honorarium, all directors receive an annual retainer. The chairman of the board receives a \$18,000 annual retainer, the vice chairman of the board receives 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 2022 was paid at the IRS-approved rate of 58.5 cents per mile for the first half of the year and 62.5 cents per mile for the second half of the year. A copy of the travel policy is available to stockholders of the Association upon request.

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

| <u>Director</u> | <u>Number of Meetings Served</u> | | <u>2022 Compensation</u> |
|----------------------|----------------------------------|---|------------------------------|
| | <u>Board Meeting</u> | <u>Audit, Compensation and Other Special Meetings</u> | |
| Thomas Barker | 6 | 3 | \$ 24,700 |
| Jerry Chappell | 6 | 9 | 35,225 |
| James R. Dawley | 5 | 7 | 30,700 |
| Marion Vines Durand | 6 | 7 | 30,000 |
| Roxann Garvin | 6 | 5 | 24,375 |
| David Henneke | 6 | 9 | 30,800 |
| Bobby Hobson | 6 | 6 | 41,000 |
| John Prukop | 6 | 5 | 27,075 |
| Mark Reus | 6 | 5 | 25,350 |
| Gregory T. Richbourg | 6 | 9 | 33,825 |
| | | | <u>\$ 303,050</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 six board of directors meetings, four audit committee meetings, three compensation committee meetings and two conference call governance committee meetings during 2022. This compares to six board of directors meetings, five audit committee meetings, three compensation committee meetings and three conference call governance committee meetings during 2021 and seven board of directors meetings, five audit committee meetings, three compensation committee meetings and two conference call governance committee meetings during 2020.

The aggregate compensation paid to directors in 2022, 2021 and 2020 was \$303,050, \$354,983 and \$262,775, respectively. The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was \$57,079, \$59,714 and \$48,961 in 2022, 2021 and 2020, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Senior Officers

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

The compensation committee approves the Association’s incentive plan annually. The incentive plan is based on the Association meeting certain financial objectives established in the Association’s annual Business Plan submitted to the Farm Credit Administration and approved by the board. The incentive plan is based on the Association’s fiscal year of operations. The incentive plan requires that the Association meet certain net earnings objectives to ensure adequate capital levels to support predetermined board objectives. The incentive plan also requires that the Association meet pre-established interest rate spread objectives and credit quality objectives. The incentive plan is structured so that an incentive pool of dollars is paid if the incentive plan objectives are met. A staggered incentive pool of dollars is available to employees if objectives are less than fully achieved. There were no material amendments to the incentive plan for 2022.

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

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

Chief Executive Officer (CEO) Compensation Policy

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

Summary Compensation Table

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

| Chief Executive Officer | Year | Salary (b) | Bonus (c) | Total |
|---|-------------|---------------------|-------------------|---------------------|
| Mark Miller | 2022 | \$ 515,000 | \$ 260,878 | \$ 775,878 |
| Mark Miller | 2021 | \$ 480,000 | \$ 265,072 | \$ 745,072 |
| Mark Miller | 2020 | \$ 450,000 | \$ 190,989 | \$ 640,989 |
| Aggregate Number of Senior Officers & other highly compensated employees (a) | Year | Salary (b) | Bonus (c) | Total |
| 5 Officers | 2022 | \$ 1,117,500 | \$ 566,080 | \$ 1,683,580 |
| 5 Officers | 2021 | \$ 1,050,000 | \$ 557,203 | \$ 1,607,203 |
| 5 Officers | 2020 | \$ 998,350 | \$ 418,721 | \$ 1,417,071 |

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

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

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

Pension Benefits Table

Neither the CEO nor any 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 2022 at the IRS-approved rate of 58.5 cents per mile for the first half of the year and 62.5 cents per mile for the second half of the year.

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

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

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

The Association’s policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 14 to the consolidated financial statements, “Related Party Transactions,” included in this annual report.

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

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

RELATIONSHIP WITH INDEPENDENT AUDITOR

No change in auditors has taken place since the last annual report to stockholders, and no disagreements with auditors has occurred that the Association is required to report to the Farm Credit Administration under part 621 of the FCA regulations governing this disclosure. The fees paid in 2022 for professional audit services rendered for the Association by the independent auditors, PricewaterhouseCoopers LLP, were \$121,296. The fees paid in 2022 for professional tax services rendered for the Association by the independent auditors, PricewaterhouseCoopers LLP, were \$12,000. 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, 2022.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 10, 2023, and the report of management in this annual report to stockholders, are incorporated herein by reference.

MEMBER/SHAREHOLDER PRIVACY

Members' nonpublic personal financial information is protected by Farm Credit Administration regulation. Our directors and employees are restricted from disclosing information not normally contained in published reports or press releases about the Association or its members.

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 2022 objectives compared to actual results.

| YBS Program - New Loan Volume | 2022 Goal | 2022 Result |
|--------------------------------------|----------------------|------------------------|
| Young farmers and ranchers | \$ 90,000,000 | \$ 99,352,000 |
| Beginning farmers and ranchers | \$ 340,000,000 | \$ 378,578,000 |
| Small farmers and ranchers | \$ 340,000,000 | \$ 390,685,000 |

| YBS Program - Percentage of New Loan Volume | 2022 Goal | 2022 Result |
|--|----------------------|------------------------|
| Young farmers and ranchers | 9.0% | 12.0% |
| Beginning farmers and ranchers | 33.0% | 45.7% |
| Small farmers and ranchers | 33.0% | 47.1% |

| YBS Program - Number of New Loans | 2022 Goal | 2022 Result |
|--|----------------------|------------------------|
| Young farmers and ranchers | 249 | 193 |
| Beginning farmers and ranchers | 900 | 630 |
| Small farmers and ranchers | 1,040 | 706 |

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 2023 objectives that were approved by the board of directors and included in the Association's strategic plan are summarized in the following table.

| YBS Program - Number of Loans | 2023 Goal |
|--|----------------------|
| Young farmers and ranchers | 825 |
| Beginning farmers and ranchers | 2,940 |
| Small farmers and ranchers | 3,546 |
| | Total |
| YBS Program - Percentage of Total Number of Loans | Loans |
| Young farmers and ranchers | 16.3% |
| Beginning farmers and ranchers | 59.3% |
| Small farmers and ranchers | 72.5% |

| YBS Program - Combined Segments | Total Loans |
|--|------------------------|
| % of Total Number of Loans | 75.4% |
| % of Total Volume of Loans | 67.1% |

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 2022 data.

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

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

| YBS Program - Association | Total | Number | Percentage of Total |
|---|--------------|---------------|--------------------------------|
| Agricultural producers' loans in the Association | 5,058 | | |
| Young farmers and ranchers loans in the Association | | 839 | 16.6% |
| Beginning farmers and ranchers loans in the Association | | 3,096 | 61.2% |
| Small farmers and ranchers loans in the Association | | 3,733 | 73.8% |

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

We offer a digital version of this annual report! If you'd like to receive it via email next year, please scan this QR code using your phone's camera app (or visit [texasfarmcredit.com/customer-information](https://www.texasfarmcredit.com/customer-information) on our website), fill out the form, and we'll take care of the rest!



AGRICULTURE LENDING

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

RURAL REAL ESTATE FINANCING

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

INSURANCE SERVICES

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

HOME MORTGAGES

Offering these home loan programs:

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

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



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

PRSRST STD
US POSTAGE
PAID
AUSTIN TEXAS
PERMIT #1845

ADDRESS SERVICE REQUESTED



TEXAS GROWN. CUSTOMER OWNED.



Texas Farm Credit offers loans and related services for recreational property, rural homes, farms and ranches, insurance services and hunting ranches.



TexasFarmCredit.com | 800.950.8563