CAPITAL FARM CREDIT

GROWING BUT GROUNDED

2023 ANNUAL REPORT


With offices that serve
192 counties across the state,
Capital Farm Credit is Texas'
largest agricultural lender.
capitalfarmcredit.com | 877.944.5500
NMLS493828

HELPING AGRICULTURE THRIVE

Capital Farm Credit is Texas' largest rural lending and financial services cooperative, owned by the very people and operations we do business with. Established in 1916, we've never wavered from our original mission to support rural communities and Texas agriculture. When we do well, we return our earnings to our customers as patronage through our cooperative structure. As owners of the cooperative, our customers have a voice and a vote in the co-op's business.

A secret to our success is the focus on our Winning Combination. We understand what is important to our members and what makes our association thrive. Our priorities surround our customers, culture, and cooperative performance.

Today, Capital Farm Credit provides customized financing solutions to more than 23,000 farmers, ranchers, agribusiness operators, country homeowners and other rural landowners. We remain committed to helping our customers pursue their goals and realize their dreams of living on and working the land we call home. In 2023, we stayed rooted in our Winning Combination, finding new ways to streamline our lending systems. This served as a springboard for many achievements throughout the year, staying grounded with our people in mind.

Together we're *better*.™

CONTENTS

customers

GROUNDED IN OUR ROOTS

For years, Capital Farm Credit has supported the next generation of agriculturalists through scholarships and our NextGen and AgVista loan programs. In 2023, we took our support further by hosting our inaugural AgriRoots conference for young, beginning, and small producers. Held in Lubbock, the AgriRoots conference was established to provide next-generation producers with resources to help them succeed in their agribusiness operations, whether large or small, full or part time.

AgriRoots

This conference was held in person so young producers could network, meet face to face with agricultural industry experts, and establish ongoing relationships. Ultimately, we hope to increase collaborative efforts that will help sustain the future of agriculture across Texas, and we look forward to hosting the second annual AgriRoots conference in 2024.

Alongside our first AgriRoots conference, Capital Farm Credit launched the GROW Your AgriRoots Awards Contest last year. This program recognizes outstanding young, beginning, or small producers making an impact in the agricultural industry across Texas.

In November, our two contest winners — Blake Branson of Lone Star Oysters in West Galveston Bay, and Kade and Morgan Hodges of Hodges Livestock in Sterling City — each received a $10,000 grant to use in their operation. They were selected from a large pool of deserving applicants, all serving the agricultural industry in their local communities. The next AgriRoots Awards Contest is planned for 2024.

GROUNDED IN COLLABORATION

We entered our second year supporting the Norman Borlaug Youth in Ag Program alongside other key sponsors, H-E-B and the Houston Livestock Show and Rodeo. This program serves as a connection between rural youth and urban youth to learn from one another, better understand the complex challenges facing our state, and develop possible future solutions.

FINDING COMMON GROUND

Capital Farm Credit customer Regina Peña of Philly Seafood in Palacios took a taste of the Texas Gulf Coast to lawmakers in Washington, D.C., in November.

Shrimp from her family's Philly Seafood, established in 1952, was among nearly 100 Farm Credit-supported ag products from across the country showcased during Farm Credit Marketplace. The marketplace was the centerpiece of Farm Credit's biannual legislative fly-in. It was organized to educate members of Congress about Farm Credit's role in supporting rural communities and agriculture — including aquaculture — with reliable, consistent credit and financial services.

"I am so proud and honored to work with Capital Farm Credit. The Farm Credit mission to promote and sustain agriculture is vital to our shrimp industry. Their partnerships with YBS producers benefit the ag industry and help sustain the future of agriculture in Texas."

– Regina Peña, Philly Seafood

BREAKING GROUND

As part of a long-term strategy to provide exceptional customer experiences and better meet staff needs, Capital Farm Credit broke ground for new office buildings in San Angelo and Waco last winter. The new office locations will be more accessible for customers, offer more square footage, and allow better workflow and collaboration among team members.

Designed based on feedback from customers, employees, and leadership, the two new facilities will serve as prototypes whenever we update or build other office locations in the future.

WACO

SAN ANGELO

FROM THE GROUND UP

Capital Farm Credit became a founding sponsor of the Lubbock County Expo Center in September with a multi-year financial commitment to the new facility, which will open in 2025.

The 430,000-square-foot center will host rodeos and a variety of events, including agriculture, sports, culture, entertainment, and recreation. It is expected to positively impact the Lubbock community and the South Plains, an agricultural hub for West Texas. Capital Farm Credit's mission aligns with the expo center's — to support agriculture, youth and community.

culture

ROOTED IN THE GROUND

PODCASTING STORIES OF TEXAS AG FOLKS

Capital Farm Credit launched a podcast spotlighting the people who sustain the industry that brings us food, fuel, and fiber, including Capital Farm Credit customers. It shares unique and often entertaining stories from Texas agriculture, both lifestyle and production-focused, and shows how the ag industry impacts people's lives every day.

CAPITAL Roots
Stories from Agriculture's Footprint

Current episodes can be heard at Capital Roots: Stories from Agriculture's Footprint | RSS.com

BOOTS ON THE GROUND

Capital Farm Credit serves 192 Texas counties, maintains 62 office locations, and employs about 600 people. Despite our size and geography, we consider ourselves a tight-knit family. That's part of our cooperative culture. Last year, our executive management team visited every Capital Farm Credit office in the state, from the Texas Panhandle to the Rio Grande Valley to the East Texas Piney Woods. Meeting with team members in their own environments gave management a better understanding of the challenges and opportunities of each location. Capital Farm Credit is a Texas leader in rural lending largely because of our outstanding employees. They are the engine that keeps our cooperative operating at peak performance and moving forward. Each one makes an immeasurable contribution to the success of the organization and the experience our customers have during the loan process, no matter what their role. This was evident during management's roadshow.

In addition to these meetings, every team member was invited to participate in our 2023 Employee Satisfaction Survey. An impressive 86 percent of employees responded, demonstrating their commitment to make our workplace even better. In all categories, ranging from support for our mission to work-life balance, the responses were overwhelmingly positive. These results reflect the organizational improvements we've made in recent years to foster a culture that is inclusive, collaborative, and cooperative — a place where every employee takes ownership of their job and is recognized for their contributions and accomplishments.

cooperative performance

$197.7 MILLION RETURNING A RECORD IN COOPERATIVE RETURNS IN 2023

Since 2006, we have maintained our commitment to returning our profits to our member-owners.

$197.7 MILLION IN CASH

Distributed to our customers in 2023

$127.6 MILLION

A record in cash patronage, based on 2022 earnings and distributed in March.

$70.1 MILLION

Allocated equities, issued in 2014 and retired and distributed in November.

The association continues to allocate additional earnings each year, with the intention of distributing to our members at a future date. Allocating equities provides the cooperative with a source of capital to fund growth, but still ensures members retain ownership of the co-op.

Since 2006, Capital Farm Credit has distributed more than **$2.5 billion** in combined cash patronage and allocated equities to our customers.

Our cooperative returns program effectively lowers the cost of doing business for the farmers, ranchers, and rural property owners we finance and is one of the best patronage programs in the country.

SURPASSING $12 BILLION IN LOAN VOLUME

Capital Farm Credit surpassed $12 billion in net loan volume in 2023 — a significant achievement in a difficult interest rate environment. When we look back to 2019, a year when we closed at $8 billion, we developed a plan to grow our organization with five initiatives. Achieving $12 billion is a significant accomplishment.

Achieving that goal one year ahead of plan is a testament of the faith our customers have in us to be the partner of choice for rural financing — to provide reliable credit and financial services to agriculture and rural communities across Texas. Capital Farm Credit is not only the largest rural lending cooperative in Texas, but also one of the largest Farm Credit lending institutions in the nation.

IMPROVING THE CUSTOMER EXPERIENCE

At Capital Farm Credit, we measure our performance not only in financial results, but also in customer satisfaction. We've worked to streamline our loan application, approval processes and online banking to offer a more turnkey digital experience. Results of our customer relationship survey conducted in 2023 showed that customers are overwhelmingly happy with the service they receive from Capital Farm Credit. Thank you for your feedback. Going forward, we'll continue to survey customers after they close, renew, or pay off a loan. This feedback will help us continue to improve our processes and enhance the total customer experience.

A Message to Our Members

DEAR STOCKHOLDERS:

Considering historical levels of increased interest rates over 2022 and 2023, it's rewarding to see all that Capital Farm Credit achieved last year. Our core business model was challenged in 2023, but we ended the year with solid loan growth and record patronage levels. We also made significant strides forward in thinking about the future of our industry with further investments in our youth programs, upgrading our facilities, and continuing to enhance the employee experience.

For Texas farmers and ranchers, 2023 was likewise a challenging year. Drought, record heat, interest rates and inflation challenged those in agriculture to be profitable and grow their operations. It always pays to do business with your cooperative, and during such a challenging year, this was especially true.

One of our most notable achievements in 2023 was reaching our goal of $12 billion in net loan volume last fall — a full year ahead of plan. This was a phenomenal achievement given the higher interest rate environment and is a tribute to the hard work of our team members and the trust our customers have in us. Such remarkable growth is also a testament to our attractive cooperative returns program, which makes Capital Farm Credit a standout rural lender.

While many commercial banks struggled in the unprecedented market of 2023, Capital Farm Credit's overall financial performance remained strong, as supported by the Fitch and S&P rating agencies, which affirmed our credit rating — an important signal to those who invest in Farm Credit bonds.

But we didn't just grow bigger last year, we also became better at what we do. Guided by the strategy our board implemented in 2021, we continue to focus on our customers, our culture and our cooperative performance.

In addition, your board and management made the strategic decision to relocate the association's headquarters from the current leased building in Bryan to a building we purchased just down the road in College Station. As stewards of our customers' equity in the cooperative, we recognized the purchase as an opportunity to manage the cooperative's cost of space over the long term. Some remodel work is being performed to fit our needs, and we expect to move in to the new location in late 2024. The new building will also provide a collaborative work environment for team members, allow for future growth, and offer plenty of meeting and training space for staff, customers and even the greater agricultural community.

At Capital Farm Credit, we believe we have a responsibility to support our future customers, the next generation of farmers and ranchers. For years, we've awarded scholarships to young people and offered special loan programs to young, beginning, and small (YBS) producers. In 2023, we took our commitment further, organizing our first-ever next-generation AgriRoots conference and the GROW your AgriRoots Awards Contest. We hope these annual events and our partnerships with YBS producers will benefit the ag industry and help sustain the future of agriculture in Texas.

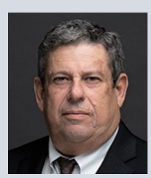
Capital Farm Credit cares deeply about the success of our customers. It's part of our cooperative culture. During the drought and record heat of 2023, we ramped up our insurance program to help ag producers understand and purchase crop and livestock insurance to mitigate risk. As a result, our newly restructured Insurance Services Group is positioned to offer superior customer service and insurance products, while also generating additional income for the association.

In spite of all the changes under way at Capital Farm Credit — from planning new office buildings, to implementing new lending systems in 2022, to realigning offices in certain markets — it's reassuring to know we have the support of our customers and team members. Surveys conducted last year proved our customers' satisfaction with the cooperative, and our employee engagement survey came back with world-class scores. We have built a culture based on the core values of commitment, trust, value and family, and there's no doubt that culture translated to the cooperative's strong performance last year.

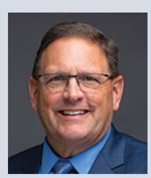
As a cooperative that's owned by its members, Capital Farm Credit operates in your best interests. Your co-op leadership is here for you to represent your needs and hear your concerns. We thank you for the trust you placed in Capital Farm Credit in 2023, and we wish you a successful year ahead.

As we begin 2024, we are excited about the challenges and opportunities for Capital Farm Credit to provide even greater value to our members. We look forward to continuing our support of agriculture and rural communities and helping our customers achieve their goals and dreams in the future.

Together, we're better.



John Malazzo CHAIRMAN, BOARD OF DIRECTORS



Jeff Norte CHIEF EXECUTIVE OFFICER

Scan here to view a message from our leaders

REPORT OF MANAGEMENT

The consolidated financial statements of Capital Farm Credit, ACA ("association") are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded, and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, who also conduct a review of internal controls to the extent necessary to comply with auditing standards solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The association is also examined by the Farm Credit Administration.

The board of directors has overall responsibility for the association's systems of internal control and financial reporting. The board consults regularly with management and reviews the results of the audits and examinations referred to previously.

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

Jeff Norte, Chief Executive Officer
March 8, 2024

John Malazzo, Chairman, Board of Directors
March 8, 2024

Sally Lawson, Chief Financial Officer
March 8, 2024

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The association's chief executive officer and chief financial officer 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 (1) designed by, or under the supervision of, the association's principal executives and principal financial officers or persons performing similar functions; (2) effected by its board of directors, management and other personnel; and (3) monitored for adherence to by the board's audit committee through the association's internal audit staff and internal credit reviewers 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 consolidated financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the association; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the association's assets that could have a material effect on its consolidated financial statements.

The association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2023. In making the assessment, management used the framework in Internal Control — Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the association concluded that as of December 31, 2023, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the association determined that there were no material weaknesses in internal control over financial reporting as of December 31, 2023. A review of the assessment performed was reported to the association's audit committee.

J Norte

Jeff Norte, Chief Executive Officer
March 8, 2024

Sally Lawson

Sally Lawson, Chief Financial Officer
March 8, 2024

REPORT OF AUDIT COMMITTEE

The audit committee (committee) is composed of four directors of Capital Farm Credit, ACA (the association). In 2023, the committee met seven times. The committee oversees the scope of the association's system of internal controls and procedures and the adequacy of management's action with respect to recommendations arising from those auditing activities. The committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on the association's website. The committee approved the appointment of PricewaterhouseCoopers LLP (PwC) for 2023.

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

In this context, the committee reviewed and discussed the association's audited consolidated financial statements for the year ended December 31, 2023 (audited consolidated financial statements), with management and PwC. The committee also reviews with PwC the matters required to be discussed by authoritative guidance, "The Auditor's Communication With Those Charged With Governance," and both PwC and the association's internal auditors directly provide reports on significant matters to the committee.

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

Based on the foregoing review and discussions and relying thereon, the committee recommended that the board of directors include the audited consolidated financial statements in the association's Annual Report to Stockholders for the year ended December 31, 2023.

Sharleen Walkoviak, Chair

Additional Members: Jim Brock
Terry McAlister
Ronnie Riddle

March 8, 2024

CAPITAL FARM CREDIT, ACA
FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	December 31,				
	2023	2022	2021	2020	2019
Balance Sheet Data					
Assets					
Loans	**$ 12,121,901**	$ 11,487,825	$ 10,456,511	$ 8,684,131	$ 7,822,838
Less: Allowance for loan losses	**(30,106)**	(21,386)	(22,996)	(31,592)	(30,798)
Net Loans	**12,091,795**	11,466,439	10,433,515	8,652,539	7,792,040
Investment -- held-to-maturity	**1,027**	1,496	1,952	2,582	3,418
Investment in and receivable from the Bank:	**228,173**	191,460	181,041	161,379	154,485
Other property owned, net	**23,177**	2,924	927	601	859
Other assets	**244,752**	179,911	134,432	126,539	135,176
Total assets	**$ 12,588,924**	$ 11,842,230	$ 10,751,867	$ 8,943,640	$ 8,085,978
Liabilities					
Obligations with maturities of one year or less	**$ 208,469**	$ 221,235	$ 224,973	$ 196,972	$ 172,634
Obligations with maturities greater than one year	**10,583,994**	9,892,648	8,893,589	7,395,111	6,629,186
Total liabilities	**10,792,463**	10,113,883	9,118,562	7,592,083	6,801,820
Members' Equity					
Capital stock and participation certificates	**$ 28,018**	$ 28,337	$ 28,410	$ 27,043	$ 25,980
Preferred Stock	**200,000**	200,000	200,000	-	-
Non-qualified allocated retained earnings	**940,473**	885,831	803,147	737,454	674,877
Unallocated retained earnings	**625,119**	610,986	604,705	590,617	586,224
Accumulated other comprehensive income (loss)	**2,851**	3,193	(2,957)	(3,557)	(2,923)
Total members' equity	**1,796,461**	1,728,347	1,633,305	1,351,557	1,284,158
Total liabilities and members' equity	**$ 12,588,924**	$ 11,842,230	$ 10,751,867	$ 8,943,640	$ 8,085,978

	Year Ended December 31,				
Statement of Income Data					
Net interest income	**$ 348,694**	$ 322,799	$ 280,400	$ 247,641	$ 235,013
(Provision for)/reversal of credit losses	**(8,518)**	1,003	9,198	(582)	(8,101)
Income from the Bank	**38,550**	71,109	59,185	48,940	40,403
Other noninterest income	**31,305**	23,092	25,888	22,431	14,794
Noninterest expense	**(139,707)**	(131,695)	(112,908)	(98,172)	(101,099)
(Provision for)/benefit from income taxes	**(8)**	1	(50)	-	(5)
Net income	**$ 270,316**	$ 286,309	$ 261,713	$ 220,258	$ 181,005
Key Financial Ratios for the Year					
Return on average assets	2.2%	2.5%	2.7%	2.6%	2.3%
Return on average members' equity	14.6%	16.4%	15.9%	16.7%	14.4%
Net interest margin as a percentage of average earning assets	3.0%	2.9%	3.0%	3.0%	3.1%
Net charge-offs (recoveries) as a percentage of average loans	0.0%	0.0%	0.0%	0.0%	0.0%

CAPITAL FARM CREDIT, ACA
FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	December 31,				
	2023	**2022**	**2021**	**2020**	**2019**
Key Financial Ratios at Year End					
Members' equity as a percentage of total assets	14.3%	14.6%	15.2%	15.1%	15.9%
Debt as a percentage of members' equity	600.8%	585.2%	558.3%	561.7%	529.7%
Allowance for credit losses on loans as a percentage of loans	0.2%	0.2%	0.2%	0.4%	0.4%
Common Equity tier 1 ratio	11.5%	11.5%	12.4%	14.0%	14.6%
Tier 1 capital ratio	13.0%	13.1%	14.3%	14.0%	14.6%
Total capital ratio	13.3%	13.3%	14.5%	14.4%	15.0%
Permanent capital ratio	13.1%	13.1%	14.3%	14.1%	14.7%
Tier 1 leverage ratio	13.9%	13.9%	15.0%	14.7%	15.2%
UREE leverage ratio	5.0%	5.4%	7.3%	8.4%	8.9%
Net Income Distribution/Allocation					
Cash patronage paid	$ 127,595	$ 108,069	$ 98,280	$ 88,550	$ 87,543
Cash retirement of nonqualified written notice of allocation	70,065	59,747	60,000	55,000	38,206
Nonqualified notices of allocation	124,707	142,433	125,700	117,585	87,987
Preferred stock dividends paid	10,000	10,000	9,056	-	-

The association’s ratios remained well above the regulatory minimums, including the conservation and leverage buffers at December 31, 2023. For more information, see Note 11, “Members Equity,” in the accompanying consolidated financial statements. The full amount of the association's Class B preferred stock is included in the permanent capital, tier 1 capital, and total capital.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(ALL DOLLAR AMOUNTS IN THOUSANDS)**

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Capital Farm Credit, ACA, including its wholly owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA (collectively referred to as the association) for the years ended December 31, 2023, 2022 and 2021, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying financial statements were prepared under the oversight of the association's audit committee.

Forward-Looking Information:

This annual report 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 the association's control. The association is impacted by factors that would impact any agricultural and rural real estate lender. These risks and uncertainties include but are not limited to:

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

Commodity Review and Economic Outlook:

Capital Farm Credit's chartered territory is geographically diverse as it reaches across the state of Texas. This allows for diversity of commodities and industries throughout the loan portfolio. The association lends to full-time and part-time operators as well as agribusinesses within our footprint. The association also participates in shared assets within the Farm Credit System. As many of our members have diversified revenue streams, the association's loan portfolio is impacted by the diverse agricultural opportunities in the state as well as the general Texas economy.

The Texas economy remained strong throughout 2023 due to the continued influx of industries and people into the state. Job growth in Texas outpaced the nation at 3.3 percent compared to 1.8 percent in 2023. The strongest growth came in education and health services, leisure and hospitality and construction. Texas rig counts remained stable in 2023 despite a drop in oil and gas prices. Housing prices continued to fall in 2023 due to less demand caused by high interest rates. However, demand for rural land continues to be strong.

The Consumer Price Index for All Urban Consumers increased by 3.1 percent for the 12-month period ending January 2024, above the long-term target of approximately 2.0 percent. However, recent inflation rates represent significant declines from the four-decade high of 9.1 percent reached in June 2022. Since July 2023, the Federal Open Market Committee (FOMC) has maintained the target federal funds rate within the 5.25 – 5.50 percent range. At the January 2024 FOMC meeting, the committee stated that it does not expect it will be appropriate to reduce the target federal funds rate until it has gained greater confidence that inflation is moving sustainably toward 2.0 percent. Participants indicated that the policy rate was likely at or near its peak for this tightening cycle and that cuts in the federal funds rate were probable during 2024. Participants were resolute in their commitment to bring inflation down to the 2.0 percent long-run objective while achieving maximum employment.

Once again, Texas agriculture suffered in 2023 with extreme heat through June and July and drought conditions throughout the state. Weather conditions significantly affected row crop producers' yields, making the safety net of crop insurance and the stacked income protection plan (STAX) critical to their continued viability. Cow-calf producers fared better this year due to high cattle prices. The following is a review and outlook of some of the key commodities served by the association and a summary of industries and economic factors that impact our part-time farmers. The percentages shown were determined based on the outstanding loan volume tied to the specific type of operation or commodity as of December 31, 2023.

Livestock (48.6 percent of the loan portfolio) – Drought conditions throughout the state and high input costs were offset by high cattle prices in 2023. These high cattle prices were expected due to the reduction in supply in 2022.

Crops (14.9 percent of the loan portfolio) – Crop producers suffered their second year of low yields across the state due to drought conditions and continued high input costs. Those that were able to lock in prices early and make a crop came out marginally better. Improved yields in 2024 will be critical for crop producers as multiple years of low yields increase crop insurance premiums.

Hunting and recreation (11.9 percent of the loan portfolio) – High interest rates and acreage prices have limited discretionary spending in 2023, leading to little opportunity for growth in this sector.

Dairy (5.7 percent of the loan portfolio) – The dairy industry has had many challenges in 2023, including drought, high input costs and low milk prices. Milk production in Texas declined every month from 2022 levels. Milk processing within the state increased this year and is expected to increase again in the coming year.

Utilities (2.9 percent of the loan portfolio) – This sector of the portfolio continues to be steady, with less volatility than previous years due to improvements in infrastructure.

Timber (1.9 percent of the loan portfolio) – The Texas timber industry continues to be steady, with housing starts higher in Texas than other states and strong exports to Mexico. The industry has also benefited from increased demand for cardboard due to the shift in consumer spending to online purchases.

Other (14.1 percent of the loan portfolio) – The Federal Reserve has slowed their tightening of monetary policy as the Consumer Price Index (CPI) has come down throughout 2023. It remains to be seen if the Fed will begin lowering short-term interest rates in 2024 as the economy continues to slow. The high interest rate environment has limited growth opportunities as compared to previous years; however, the association continues to have moderate growth and strong credit quality.

Significant Events:

Adoption of New Accounting Standard

Effective January 1, 2023, the association adopted the current expected credit losses (CECL) accounting guidance that replaced the incurred loss guidance. CECL established a single allowance framework for financial assets carried at amortized cost and certain off-balance-sheet credit exposures. CECL requires management to consider in its estimate of allowance for credit losses (ACL) relevant historical events, current conditions and reasonable and supportable forecasts that affect the collectability of the assets. The adoption of this guidance resulted in a cumulative effect transition adjustment at January 1, 2023, reflecting an increase in the association's ACL of $2,684 on outstanding loans and unfunded commitments and a corresponding decrease in retained earnings.

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

Preferred Stock Issuance

On January 19, 2021, the association issued $200,000 in noncumulative perpetual preferred stock. The decision to issue preferred stock was in anticipation of projected future loan growth. The issuance carries an annual dividend rate of 5.00 percent paid quarterly. The issuance will be callable March 15, 2026, and quarterly thereafter. If not called, the dividend will reset for the next five years to 4.52 percent over the five-year treasury on the call date. The association made dividend payments on March 15, June 15, September 15, and December 15, 2023, for a total amount of $10,000.

Rating Agency Actions

Fitch Ratings Actions
On December 20, 2023, Fitch reaffirmed the association's "BBB" with a stable outlook rating.

S&P Global Rating Actions
On December 8, 2023, S&P reaffirmed the association's "BBB" with a stable outlook rating.

Corporate Headquarters

In July 2023, the association purchased a building in College Station, Texas. The association expects to complete renovations and relocate its corporate headquarters and credit office to the new building during the second half of 2024.

Patronage Refunds by Association

The board of directors approved a $243,498 patronage distribution for 2023. Of that amount, $118,791 of this distribution will be paid in cash in March 2024, and $124,707 will be distributed in the form of nonqualified allocated equity, which means the owners of these distributions will not pay federal income taxes until the equities are retired. It is the board's intention with these allocations to assign ownership of the earnings of the association, allowing the stockholders to benefit more fully from the earnings of the association and to create a method to make future equity distributions in the form of cash. Though there is not a planned retirement of these allocated equities, the board of directors will make an annual evaluation of the association's capital position and determine if some cash retirements of these equities can be made. In 2022, the board of directors approved a $270,028 patronage distribution, with cash patronage payable of $127,595 and $142,433 in nonqualified allocations. In March 2023, the association finalized the computation of these distributions, which resulted in an increase in cash patronage payable of $1 for an actual cash distribution of $127,596, and a decrease of nonqualified allocated equities of $1 for a final allocation of $142,432. In 2021, the board of directors approved a $233,769 patronage distribution, with cash patronage payable of $108,069 and $125,700 in nonqualified allocations.

In October 2023, the board of directors approved a resolution to retire $70,065 in nonqualified allocated equities, which were paid to the recipients in November 2023. The retirement was a distribution of all earnings allocated in 2014. In September 2022, the board of directors approved a resolution to retire $59,747 in nonqualified allocated equities, which were paid to the recipients in November 2022. The retirement was a distribution of all remaining earnings allocated in 2013. In September 2021, the board of directors approved a resolution to retire $60,000 in nonqualified allocated equities, which were paid to the recipients in December 2021. The retirement was a distribution of all remaining earnings allocated in 2012 and 24 percent of the earnings allocated in 2013.

Patronage Refund Received from Farm Credit Bank of Texas

The association received income in the form of a direct loan patronage of $27,095, $61,171 and $49,936 from the Farm Credit Bank of Texas (bank), representing 0.27 percent, 0.64 percent and 0.63 percent of the average daily balance of the association's direct loan with the bank at December 31, 2023, 2022 and 2021, respectively. Beginning in 2023, the bank paid patronage in the form of cash and nonqualified allocated equities. Of the $27,095 patronage in 2023, $18,967 was paid in cash and $8,128 in nonqualified allocations. The association also received $7,033, $3,800 and $2,737 in patronage payments from the bank, based on the association's stock investment in the bank at December 31, 2023, 2022 and 2021, respectively. In addition, as a result of the CPP transaction discussed under the "Loan Portfolio" section below, the association received patronage of $1,053, $1,550 and $1,866 in 2023, 2022 and 2021, respectively. Also, the association received a capital markets patronage of $3,369, $4,588 and $4,646 from the bank in 2023, 2022 and 2021 representing approximately 0.75 percent, 1.00 percent and 1.00 percent, respectively, on the year's average daily balance for loan participations sold to the bank.

Loan Portfolio:

The association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The association's loan volume consists primarily of long-term real estate mortgage loans, production and intermediate-term loans and farm-related business loans including originated and purchased. These loan products are available to eligible borrowers with competitive variable, fixed, adjustable, SOFR-based and prime-based interest rates. For all loan products, the association is able to lock an interest rate spread for the pricing term of the loan. When the pricing term expires on a loan, the association is subject to a new cost of funds from the bank. However, the association is then also able to establish a new interest spread on the loan to the customer. Pricing terms range from one month on Farm Credit SOFR indexed, CME Term SOFR, and prime-indexed products from 60 days to 30 years on fixed-rate products. Loan maturities range from one to five years, with annual operating loans comprising the majority of the production loans and five- 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.

At December 31, 2023, the association's loan volume was $12,121,901, an increase of $634,076 or 5.5 percent from December 31, 2022. Volume increased in 2023 across the portfolio, with growth in the real estate mortgage loans of $201,266 or 2.3 percent, production intermediate-term loans of $290,681 or 20.5 percent, farm related business loans of $94,218 or 9.7 percent, communication loans of $22,855 or 12.1 percent, energy loans of $3,309 or 2.3 percent, water and waste disposal loans of $39,437 or 320.3 percent and lease receivable loans of $624 or 3.1 percent, slightly offset by decreases in rural residential real estate of $18,240 or 17.4 percent and mission-related investments of $74 or 4.1 percent. At December 31, 2022, loan volume was $11,487,825, which was 9.9 percent higher than the December 31, 2021, loan volume of $10,456,511. The credit quality of the association's portfolio has remained strong. Loans classified as acceptable were 97.3 percent of the total portfolio at December 31, 2023, in comparison to 98.4 percent of the total portfolio at December 31, 2022, and 97.9 percent at December 31, 2021. Overall, there has been no significant change in the geographical distribution of the portfolio or the types of loans that comprise the portfolio. The composition of the association's loan portfolio is described more fully in detailed tables in Note 4 to the consolidated financial statements, "Loans and Allowance for Credit Losses."

In September 2018, the association completed a sale of $99,586 in loans to the Farm Credit Bank of Texas as part of its capitalized participation pool (CPP). In accordance with this program, the association capitalizes this loan pool with a 6 percent investment in the bank in exchange for the net earnings this pool generates. The CPP program allows the association to manage its capital by controlling the amount of loan volume on the balance sheet. The program recognized earnings of $935, $1,244 and $1,615 in 2023, 2022 and 2021, respectively. The earnings from the program are under the control and discretion of FCBT.

At December 31, 2023, 2022 and 2021, the association held two transactions, respectively, which are reported as loans on the consolidated balance sheet totaling $1,729, $1,803 and $1,877, with remaining commitments of $0, $0 and $0 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:

The association has obtained loan guarantees from the Federal Agricultural Mortgage Corporation (Farmer Mac) through an arrangement with the bank in the form of standby commitments to purchase qualifying loans. At December 31, 2023, 2022 and 2021, loans totaling $6,704, $7,558 and $8,017, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $23, $28 and $35 in 2023, 2022 and 2021, respectively, and are reflected in “other noninterest expense” in the consolidated statement of income.

The association participates in loans with other lenders and is a net seller. As of December 31, 2023, 2022 and 2021, loan participations purchased by the association totaled $2,309,821, $2,079,009 and $1,440,066, or 19.1 percent, 18.1 percent and 13.8 percent of loans, respectively. Included in these amounts are participations purchased from entities outside the System, totaling $1,731, $3,422 and $3,156, or 0.0 percent of loans in 2023, 2022 and 2021, respectively, and $2,308,090, $2,075,587 and $1,436,910, or 19.0 percent, 18.1 percent and 13.7 percent of loans, respectively, from entities within the System. Of the amounts purchased within the System, $406,183, $344,123 and $271,810 were purchased within the district as of December 31, 2023, 2022 and 2021, respectively. The association has also sold participations to other lenders within the System of $2,467,422, $2,244,723 and $2,143,298 as of December 31, 2023, 2022 and 2021, respectively. Of the amounts sold within the System, $1,627,349, $1,442,191, and $1,327,007 were sold within the district as of December 31, 2023, 2022, and 2021, respectively.

Investments:

<u>Agricultural Mortgage-Backed Securities</u>

During 2010, the association exchanged loans totaling $27,975 for Farmer Mac guaranteed mortgage-backed securities (AMBS). The loans were previously covered under the Long-Term Standby Commitments to Purchase (LTSCP) Agreement with Farmer Mac. These loans were sold to Farmer Mac and then repurchased in the form of a guaranteed AMBS investment. The primary objective in pursuing the AMBS conversion alternative is to reduce the association’s credit exposure to Farmer Mac by putting the association in a position to benefit from the United States Treasury line of credit (under Section 8.13 of the Farm Credit Act), which is only available for the payment of Farmer Mac’s guarantee obligations on securities, not for its obligations under the LTSCP program. No gain or loss was recognized in the financial statements as a result of the exchange transaction. These AMBS are included in the association’s consolidated balance sheet as held-to-maturity investments at an amortized cost balance of $1,027, $1,496 and $1,952 at December 31, 2023, 2022 and 2021, respectively. The association continues to service the loans included in that transaction.

<u>Point of Purchase Equipment Financing</u>

The association partners with other Farm Credit associations to facilitate a point of purchase equipment financing program under the name of AgDirect LLP (AgDirect). The AgDirect program operates through independent equipment dealers to originate and refinance agricultural equipment loans. The association’s investment in AgDirect was $19,846, $16,339 and $14,902 at December 31, 2023, 2022 and 2021, respectively. Income from this program was $2,493, $2,054 and $1,790 for the years ended December 31, 2023, 2022 and 2021, respectively, and is included in other income in the accompanying Consolidated Statements of Comprehensive Income.

<u>Relationships with Unincorporated Business Entities</u>

The association and the bank made investments in a limited partnership, the Advantage Capital Ag Partners L.P., that will provide junior capital to rural and agriculture businesses in the United States. This partnership is a Rural Business Investment Company (RBIC), and the investment by the association and the bank is allowed under the Mission-Related Investment authorities granted in the Farm Credit Act. The association’s investment in RBIC was $12,581, $13,024 and $12,225 at December 31, 2023, 2022 and 2021, respectively. The association recorded (loss)/income from this investment in 2023, 2022 and 2021 of ($702), ($78) and $1,881, respectively.

Risk Exposure:

Nonperforming assets include nonaccrual loans, accruing loans that are 90 days or more past due, and other property owned. Formally restructured loans are no longer tracked in 2023 as a result of the implementation of a new accounting standard. The following table reflects the association's components and trends of nonperforming assets serviced for the prior three years as of December 31:

	2023		2022		2021	
	Amount	**%**	Amount	%	Amount	%
Loans:						
Nonaccrual loans	**$ 36,009**	**60.8%**	$ 56,133	93.2%	$ 38,111	95.8%
Accruing loans 90 days or more past due	**-**	**-**	1,173	1.9%	736	1.9%
Nonperforming loans	**36,009**	**60.8%**	57,306	95.1%	38,847	97.7%
Other property owned, net	**23,177**	**39.2%**	2,924	4.9%	927	2.3%
Nonperforming assets	**$ 59,186**	**100.0%**	$ 60,230	100.0%	$ 39,774	100.0%

At December 31, 2023, 2022 and 2021, nonperforming loans were $36,009, $57,306 and $38,847, representing 0.3 percent, 0.5 percent and 0.4 percent of loan volume, respectively. Nonaccrual loans decreased $20,124 during 2023 primarily as a result of movement into other property owned. This decrease was recognized primarily in the real estate mortgage, production and intermediate-term, energy, and farm-related business sectors. In addition, the association saw a decrease in accruing loans 90 days or more past due of $1,173 during 2023 in the production and intermediate-term sector. Other property owned increased by $20,253 during 2023. Other property owned consists of seven properties as of December 31, 2023.

Management also continues to routinely evaluate and monitor counterparty and collateral risks in an effort to avoid concentrations that could result in excess exposure to a single counterparty or type of collateral. The loan portfolio management practices in place have been designed to ensure loans and industries with actual or potential problems are promptly identified, monitored and addressed in a manner that allows the lending staff to work with problem customers and industries through periods of adversity. To help mitigate and diversify credit risk, the association has employed practices including securitization of loans, obtaining credit guarantees and engaging in loan participations.

Except for the relationship between installment due date and seasonal cash-flow capacities of certain borrowers, the association is not affected by any seasonal characteristics. The factors affecting the operations of the association are the same factors that would affect any agricultural real estate lender.

Allowance for Credit Losses on Loans:

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

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

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

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

Based upon ongoing risk assessment, historical loss history, and the procedures outlined above, the allowance for credit losses on loans of $30,106, $21,386 and $22,996 at December 31, 2023, 2022 and 2021, respectively, is considered adequate by management to compensate for losses in the loan portfolio at such dates.

The association also provides line of credit financing to customers to cover short-term and variable needs. As a result, the association has unfunded commitments for which a separate reserve is maintained. This reserve is reported as a liability on the association's consolidated balance sheet and was $415, $456 and $357 at December 31, 2023, 2022 and 2021, respectively.

Results of Operations:

The association's net income for the year ended December 31, 2023, was $270,316 as compared with $286,309 for the year ended December 31, 2022, reflecting a decrease of $15,993 or 5.6 percent. The association's net income for the year ended December 31, 2021, was $261,713. Net income increased $24,596, or 9.4 percent, in 2022 as compared with 2021.

Net interest income for 2023, 2022 and 2021 was $348,694, $322,799 and $280,400, respectively. This reflects increases of $25,895 or 8.0 percent, for 2023 versus 2022 and $42,399 or 15.1 percent, for 2022 versus 2021. Net interest income is the principal source of earnings for the association and is impacted by loan volume, yields on loans and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2023		2022		2021	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Interest-earning assets	**$ 11,723,093**	**$ 717,045**	$ 11,054,195	$ 553,108	$ 9,341,168	$ 437,239
Interest-bearing liabilities	**10,161,955**	**368,351**	9,508,904	230,309	7,878,400	156,839
Impact of capital	**$ 1,561,138**		$ 1,545,291		$ 1,462,768	
Net interest income		**$ 348,694**		$ 322,799		$ 280,400

	2023	2022	2021
	Average Yield	Average Yield	Average Yield
Yield on interest-earning assets	**6.12%**	5.00%	4.68%
Cost of interest-bearing liabilities	**3.62%**	2.42%	1.99%
Net interest spread	**2.50%**	2.58%	2.69%

	2023 vs. 2022			2022 vs. 2021		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income	**$ 33,469**	**$ 130,468**	**$ 163,937**	$ 80,184	$ 35,685	$ 115,869
Interest expense	**15,817**	**122,225**	**138,042**	32,459	41,011	73,470
Net interest income	**$ 17,652**	**$ 8,243**	**$ 25,895**	$ 47,725	$ (5,326)	$ 42,399

Interest income for 2023 increased by $163,937, or 29.6 percent, compared with 2022, due to an increase in loan volume and an increase in interest rates. Interest expense for 2023 increased by $138,042, or 59.9 percent, compared with 2022 primarily due to increased rates and an increase in the direct note balance. The interest rate spread decreased by 8 basis point to 2.50 percent in 2023 from 2.58 percent in 2022, primarily as a result of an increase in cost of funds. The interest rate spread decreased by 11 basis point to 2.58 in 2022 from 2.69 in 2021 also due to an increase in the cost of funds.

Noninterest income for 2023 decreased by $24,346, or 25.8 percent, compared to 2022, primarily as a result of a lower patronage from the bank, a decrease in financially related services and a decrease in gain on sale of premises and equipment, offset by an increase in loan fees, an increase in gain on OPO, and an increase on other noninterest income. The bank paid 26.7-basis point patronage on the association's average direct note borrowings during 2023 compared to 64-basis points in 2022. Noninterest income for 2022 increased by $9,128, or 10.7 percent, compared with 2021, due to an increase in patronage refund received from the bank, an increase in gain on sale of premises and equipment and a gain on other noninterest income, slightly offset by decreases in loan fees, a decrease in financially related services income, and a decrease on gains on other property owned. The bank paid a 64-basis-point cash patronage on the association's average direct note borrowings in 2022 compared with a 63-basis point patronage in 2021. Other noninterest income increased $7,723, or 66.6 percent, as a result of a real estate transaction as of December 31, 2023.

There was a provision for credit losses of $8,518 in 2023, compared to a reversal of $1,003 in 2022. The increase in the provision was primarily a result of three large relationships that were downgraded or charged off, as well as some downgrades in the portfolio during 2023. There was a reversal of provision for credit losses of $1,003 in 2022, compared with a reversal of $9,198 in 2021. The reversal was a result of improved collateral values and improved credit quality during 2022. The association was able to collect on loans classified as nonaccrual in 2021 from the prior year.

Noninterest expenses consists 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. Noninterest expenses increased in 2023 by $8,012, or 6.1 percent, compared with 2022. The increase is primarily driven by an increase in salaries and employee benefits of $5,052 or 6.2 percent, travel of $1,030 or 31.1 percent, and occupancy and equipment of $1,004 or 16.8 percent. The increases in expenses are a result of a full year since implementation of the association's new lending platform, increased headcount and growth in the loan portfolio. Noninterest expenses increased $18,787 for 2022, or 16.6 percent, compared with 2021. All categories of noninterest expense increased during 2022 offset with a decrease in other expense of $140, or 10.6 percent, compared to 2021. The increase was a result of continued COVID-19 restrictions being completely lifted during the entire 2022 fiscal year, implementation of the association's new lending platform, increased headcount and growth in the loan portfolio. The increase was primarily driven by an increase in salaries and employee benefits of $8,376, or 11.5 percent, as a result of increased headcount, and FCSIC premiums of $6,190 or 52.2 percent, as a result of an increase in premium rates and loan volume, compared to 2021.

Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs resulted in the capitalization of $4,379, $5,934 and $22,385 for 2023, 2022 and 2021, respectively, in origination fees. The capitalized costs consisted of salaries and benefits totaling $9,597, $12,993 and $17,856 for 2023, 2022 and 2021, respectively, related to the origination of loans. The capitalized fees, net of the capitalized costs, are amortized over the life of the loans as an adjustment to yield in net interest income. The adjustment to net interest income as a result of this amortization was $3,389, $3,168 and $1,291 for 2023, 2022 and 2021, respectively.

For the year ended December 31, 2023, the association's return on average assets was 2.2 percent, as compared with 2.5 percent and 2.7 percent for the years ended December 31, 2022 and 2021, respectively. For the year ended December 31, 2023, the association's return on average members' equity was 14.6 percent, as compared with 16.4 percent and 15.9 percent for the years ended December 31, 2022 and 2021, respectively.

Because the association depends on the bank for funding, any significant positive or negative factors affecting the operations of the bank could have a similar 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. All of the association's loans are match-funded with debt with similar terms by the bank.

The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of $10,524,700, $9,840,475 and $8,873,812 as of December 31, 2023, 2022 and 2021, respectively, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 4.00 percent, 3.20 percent and 1.80 percent at December 31, 2023, 2022 and 2021, respectively. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by a financing agreement. This increase in note payable to the bank and related accrued interest payable since December 31, 2022, is due to an increase in the association's loan portfolio. The association's average own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were $1,597,882, $1,648,158 and $1,584,894 for the years 2023, 2022 and 2021, respectively. The maximum amount the association may borrow from the bank as of December 31, 2023, was $12,017,713 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2026, unless sooner terminated by the bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the bank 120 days' prior written notice.

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

The association will continue to fund its operations through direct borrowings from the bank, capital surplus from prior years and member 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 $1,796,461, $1,728,347 and $1,633,305 at December 31, 2023, 2022 and 2021, respectively. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The association's permanent capital ratio at December 31, 2023, 2022 and 2021 was 13.1 percent, 13.1 percent and 14.3 percent, respectively.

Under the regulations, the association is required to maintain minimum Common Equity Tier 1 (CET1) Capital, 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 CET1 Capital ratio is an indicator of the institution's highest quality of capital and consists of unallocated retained earnings, qualifying common cooperative equities (CCEs) that meet the required holding periods and paid-in capital. The Tier 1 Capital ratio is a measure of the institution's quality of capital and financial strength. The Total Capital ratio is supplementary to the Tier 1 Capital ratio, the components of which include qualifying CCEs subject to certain holding periods, and allowance for credit losses subject to certain limitations. The Tier 1 Leverage ratio is used to measure the amount of leverage an institution has incurred against its capital base, of which at least 1.5 percent must be unallocated retained earnings (URE) and URE equivalents (UREE). This is the UREE Leverage ratio. The association's Common Equity Tier 1 ratio in 2023, 2022 and 2021 was 11.5 percent, 11.5 percent and 12.4 percent, respectively, and Tier 1 Capital ratio was 13.0 percent, 13.1 percent and 14.3 percent, respectively. The Total Capital ratio was 13.3 percent, 13.3 percent and 14.5 percent at December 31, 2023, 2022 and 2021, respectively. Under the 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 UREE leverage ratio of 1.5 percent. The association's Tier 1 Leverage ratio at December 31, 2023, 2022 and 2021 was 13.9 percent, 13.9 percent and 15.0 percent, respectively, and UREE Leverage ratio was 5.0 percent, 5.4 percent and 7.3 percent, respectively.

The association has been able to maintain solid levels of capital and strong capital ratios while declaring patronage refunds in cash to its stockholders in the amounts of $118,791, $127,595 and $108,069 in 2023, 2022 and 2021, respectively. The board of directors also issued $124,707, $142,433 and $125,700 in nonqualified written notices of allocation in 2023, 2022 and 2021, respectively. In addition, the association retired $70,065, $59,747 and $60,000 of previously allocated nonqualified written notices of allocation in 2023, 2022 and 2021, respectively. See Note 11 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

The association utilizes income pools to determine and allocate the patronage refunds for its customers. Each patronage-eligible customer's loan(s) is assigned to a respective pool based upon common characteristics to service and account for such loans. For 2023, 2022 and 2021, the association utilized a participations purchased pool, a participations sold pool and a general loan pool. The participations purchased pool includes all patronage-eligible loans that are purchased from other farm credit entities. The sold loan pool includes any portion of a loan that the association originates but sells to another entity. The general pool includes all other patronage-eligible loans not included in the other pools. Net income is calculated for each pool by including all the net interest income and other income from the loans in the pool and a reasonable allocation of association expenses for each pool. The allocation of expenses is based upon the costs to service and account for the loans in the pool. Net income for each pool is determined by subtracting the allocation of expenses from the income of the loans in the pool. Any net income from the pool is eligible for distribution only to the customers with loans in that pool. If a pool does not generate net income, there are no earnings available for distribution to those customers with loans in that pool. All pools generated earnings available for distribution in 2023, 2022 and 2021.

Regulatory Matters:

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

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

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

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

Relationship with the Bank:

The association's statutory obligation to borrow only from the bank is discussed in Note 10, "Note Payable to the Bank" in the accompanying consolidated financial statements. The bank's ability to access capital of the association is discussed in Note 2 of 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 IT services to support the critical operations of all district associations. In addition, the association has operating systems and facility-based systems that are not supported by the bank. As disclosed in Note 14, "Related Party Transactions," in the accompanying consolidated financial statements, the bank provides many services that the association can utilize, such as administrative, marketing, information systems and accounting services. Additionally, the bank bills district expenses to the associations, such as the Farm Credit System Corporation insurance premiums.

Report of Independent Auditors

To the Board of Directors of Capital Farm Credit, ACA

Opinion

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

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

Basis for Opinion

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

Emphasis of Matter

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Other Information

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

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

PricewaterhouseCoopers LLP

Austin, Texas
March 8, 2024

CAPITAL FARM CREDIT, ACA
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	December 31,		
	2023	**2022**	**2021**
ASSETS			
Loans	**12,121,901**	11,487,825	10,456,511
Less: Allowance for loan losses	**(30,106)**	(21,386)	(22,996)
Net Loans	**12,091,795**	11,466,439	10,433,515
Accrued interest receivable - loans	**108,578**	84,311	64,852
Accrued interest receivable - investments	**25**	28	24
Investment -- held-to-maturity	**1,027**	1,496	1,952
Investment in and receivable from the Bank:			
Capital stock	**204,642**	191,460	159,199
Receivable	**23,531**	21,295	21,842
Investments in other Farm Credit Institutions	**29,304**	16,928	15,131
Investment in Rural Business Investment Company	**12,581**	13,024	12,225
Other property owned, net	**23,177**	2,924	927
Premises and equipment, net	**69,070**	17,120	13,768
Right of use asset - leases	**6,542**	8,263	8,840
Other assets	**18,652**	18,942	19,592
Total assets	**$ 12,588,924**	$ 11,842,230	$ 10,751,867
LIABILITIES			
Note payable to the Bank	**$ 10,524,700**	$ 9,840,475	$ 8,873,812
Advanced conditional payments	**10,310**	11,034	11,686
Accrued interest payable	**34,372**	25,933	14,274
Lease liabilities	**6,813**	8,492	9,051
Drafts outstanding	**555**	378	904
Patronage distributions payable	**118,797**	127,603	108,075
Unfunded post-retirement medical obligation	**21,925**	21,420	27,286
Reserve for unfunded commitments	**415**	456	357
Other liabilities	**74,576**	78,092	73,117
Total liabilities	**10,792,463**	10,113,883	9,118,562
MEMBERS' EQUITY			
Capital stock and participation certificates	**28,018**	28,337	28,410
Preferred Stock	**200,000**	200,000	200,000
Nonqualified allocated retained earnings	**940,473**	885,831	803,147
Unallocated retained earnings	**625,119**	610,986	604,705
Accumulated other comprehensive income (loss)	**2,851**	3,193	(2,957)
Total members' equity	**1,796,461**	1,728,347	1,633,305
Total liabilities and members' equity	**$ 12,588,924**	$ 11,842,230	$ 10,751,867

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

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)

	Year Ended December 31,		
	2023	**2022**	**2021**
Interest Income			
Loans	**$ 716,977**	$ 553,023	$ 437,136
Investments	**68**	85	103
Total interest income	**717,045**	553,108	437,239
Interest Expense			
Note Payable to the Bank	**367,949**	230,270	156,836
Advance conditional payments	**402**	39	3
Total interest expense	**368,351**	230,309	156,839
Net interest income	**348,694**	322,799	280,400
Provision for Loan Losses			
Provision for (reversal) of credit losses	**8,518**	(1,003)	(9,198)
Net interest income after provision for losses/ (loan loss reversal)	**340,176**	323,802	289,598
Noninterest Income			
Patronage income from the Bank	**38,550**	71,109	59,185
Loan fees	**6,679**	5,934	8,862
Financially related services income	**2,863**	3,552	4,716
Gain on sale of premises and equipment, net	**1,345**	2,015	1,532
Gain on other property owned, net	**1,104**	-	79
Other noninterest income	**19,314**	11,591	10,699
Total noninterest income	**69,855**	94,201	85,073
Noninterest Expense			
Salaries and employee benefits	**85,958**	80,906	72,530
Insurance Fund premium	**17,392**	18,050	11,860
Occupancy and equipment	**6,993**	5,989	5,898
Advertising	**5,323**	4,544	3,983
Purchased services	**4,373**	4,243	3,809
Travel	**4,340**	3,310	3,152
Public and member relations	**4,203**	3,463	2,623
Supervisory and exam expense	**2,504**	2,280	2,056
Data processing	**2,270**	1,984	1,841
Training	**1,571**	1,937	803
Business insurance expense	**1,338**	1,216	1,012
Director's expense	**1,284**	1,095	907
Communications	**1,107**	1,155	1,109
Loss on other property owned, net	**-**	338	-
Other noninterest expenses	**1,051**	1,185	1,325
Total noninterest expenses	**139,707**	131,695	112,908
Income before income tax	**270,324**	286,308	261,763
Provision for (benefit from) income tax	**8**	(1)	50
Net income	**$ 270,316**	$ 286,309	$ 261,713
Other comprehensive (loss) gain:			
Change in postretirement benefit plans	**(342)**	6,150	600
Income tax expense related items of other comprehensive income	**-**	-	-
Other comprehensive gain (loss), net of tax	**(342)**	6,150	600
COMPREHENSIVE INCOME	**$ 269,974**	$ 292,459	$ 262,313

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
(dollars in thousands)

	Capital Stock/ Participation Certificates	Preferred Stock	Retained Earnings Non qualified Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2020	$ 27,043	$ -	$ 737,454	$ 590,617	$ (3,557)	$ 1,351,557
Comprehensive income:						
Net income	-	-	-	261,713	-	261,713
Other comprehensive gain	-	-	-	-	600	600
Capital stock/participation certificates issued	6,507	-	-	-	-	6,507
Capital stock/participation certificates/ allocated equities retired	(5,140)	-	(60,000)	-	-	(65,140)
Preferred stock issued	-	200,000	-	-	-	200,000
Issuance cost on preferred stock	-	-	-	(4,707)	-	(4,707)
Preferred stock dividends	-	-	-	(9,056)	-	(9,056)
Patronage distributions declared:						
Cash	-	-	-	(108,069)	-	(108,069)
Nonqualified allocations			125,700	(125,700)	-	-
Change in patronage declared and paid	-	-	(7)	(93)	-	(100)
Balance at December 31, 2021	28,410	200,000	803,147	604,705	(2,957)	1,633,305
Net income	-	-	-	286,309	-	286,309
Other comprehensive gain	-	-	-	-	6,150	6,150
Capital stock/participation certificates issued	5,135	-	-	-	-	5,135
Capital stock/participation certificates/ allocated equities retired	(5,208)	-	(59,747)	-	-	(64,955)
Preferred stock dividends	-	-	-	(10,000)	-	(10,000)
Patronage distributions declared:						
Cash	-	-	-	(127,595)	-	(127,595)
Nonqualified allocations			142,433	(142,433)		-
Change in patronage declared and paid	-	-	(2)	-	-	(2)
Balance at December 31, 2022	28,337	200,000	885,831	610,986	3,193	1,728,347
Cumulative effect of implementation of CECL	-	-	-	(2,684)	-	(2,684)
Balance at January 1, 2023	**28,337**	**200,000**	**885,831**	**608,302**	**3,193**	**1,725,663**
Net income	**-**	-	-	**270,316**	**-**	**270,316**
Other comprehensive (loss)	-	-	-	-	**(342)**	**(342)**
Capital stock/participation certificates issued	**3,173**	**-**	**-**	**-**	**-**	**3,173**
Capital stock/participation certificates/ allocated equities retired	**(3,492)**	-	**(70,065)**	**-**	**-**	**(73,557)**
Preferred stock dividends	**-**	**-**	**-**	**(10,000)**	**-**	**(10,000)**
Patronage distributions declared:						
Cash	-	-	-	**(118,791)**	-	**(118,791)**
Nonqualifed allocations	-	-	**124,707**	**(124,707)**	**-**	**-**
Change in patronage declared and paid	**-**	**-**	**-**	**(1)**	**-**	**(1)**
Balance at December 31, 2023	**$ 28,018**	**$ 200,000**	**$ 940,473**	**$ 625,119**	**$ 2,851**	**$ 1,796,461**

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	Year Ended December 31,		
	2023	2022	2021
Cash flows from operating activities:			
Net income	**$ 270,316**	$ 286,309	$ 261,713
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for/(reversal of)loan losses	**8,518**	(1,003)	(9,198)
Provision on other property owned	**145**	40	12
(Gain)/loss on other property owned	**(694)**	272	(52)
Depreciation and amortization	**9,569**	5,434	5,768
Amortization of Right of Use Asset	**1,721**	577	1,297
(Gain)/loss on sale of premises and equipment, net	**(1,345)**	2,015	(1,532)
Loss/(gain) on investment in RBIC	**702**	78	(1,881)
(Increase)/decrease in accrued interest receivable	**(24,264)**	(19,463)	(2,886)
Allocated equity patronage from the bank	**(8,128)**	-	-
(Increase)/decrease in other assets	**(1,946)**	1,197	(6,058)
Accretion of the discounted lease liability	**(1,679)**	(559)	(1,269)
Increase/(decrease) in accrued interest payable	**8,439**	11,659	1,133
(Decrease)/increase in other liabilities	**(3,353)**	5,259	20,197
Net cash provided by operating activities	**$ 258,001**	$ 291,815	$ 267,244
Cash flows from investing activities:			
(Increase) in loans, net	**$ (667,508)**	$ (1,039,603)	$ (1,777,114)
Cash recoveries of loans previously charged off	**1,194**	1,572	1,133
(Proceeds from) investment in other Farm Credit Institutions	**(4,248)**	(1,797)	(3,861)
(Proceeds from) investment in RBIC	**(259)**	(877)	1,040
(Proceeds from) investment in the bank	**(13,182)**	(32,261)	(16,435)
Decrease in investments held to maturity	**469**	456	630
(Purchases of) premises and equipment	**(56,955)**	(5,131)	(2,220)
Proceeds from sales of premises and equipment	**3,582**	(2,048)	2,449
Proceeds from sales of other property owned	**3,210**	278	458
Net cash used in investing activities	**$ (733,697)**	$ (1,079,411)	$ (1,793,920)

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	Year Ended December 31,		
	2023	2022	2021
Cash flows from financing activities:			
Net increase in note payable to the bank	**$ 684,225**	$ 966,663	$ 1,499,758
Increase/(decrease) in drafts outstanding	**177**	(526)	569
(Decrease)/increase in advance conditional payments	**(724)**	(652)	(2,878)
Issuance of capital stock and participation certificates	**3,173**	5,135	6,507
Issuance of preferred stock	**-**	-	200,000
Issuance cost on preferred stock	**-**	-	(4,707)
Retirement of capital stock, participation certificates	**-**	-	-
and allocated equities	**(73,557)**	(64,955)	(65,140)
Cash dividends paid	**(10,000)**	(10,000)	(9,056)
Patronage distributions paid	**(127,598)**	(108,069)	(98,379)
Net cash provided by financing activities	**$ 475,696**	$ 787,596	$ 1,526,674
Net (decrease) in cash	**-**	-	(2)
Cash at the beginning of the year	**-**	-	2
Cash at the end of the year	$ -	$ -	$ -
Supplemental schedule of noncash investing and financing activities:			
Loans transferred to other property owned upon loan foreclosure	**$ 22,914**	$ 2,587	$ 744
Loans charged off	**3,717**	2,080	752
Cumulative effect of implementation of CECL	**2,684**	-	-
Patronage distributions declared	**118,791**	127,595	(108,069)
Supplemental cash information:			
Cash paid during the year for:			
Interest	**$ 359,912**	$ 218,650	$ 155,706
Income taxes	**-**	-	-

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

NOTE 1 — ORGANIZATION AND OPERATIONS:

A. Organization: Capital Farm Credit, ACA, including its wholly owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA (collectively called the association), is a member-owned cooperative that provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in 192 counties in the state of Texas.

The association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act). At December 31, 2023, the System was composed of three Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

The Farm Credit Bank of Texas (bank) and its related associations are collectively referred to as the "district." The bank provides funding to all associations within the district and is responsible for supervising certain activities of the district associations. At December 31, 2023, the district consisted of the bank, one FLCA and 12 ACA parent companies (including Capital Farm Credit, ACA), 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 the associations to ensure their compliance with the Farm Credit Act, FCA regulations and safe and sound banking practices.

The Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations; (2) to ensure the retirement of protected borrower capital at par or stated value; and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the FCSIC of providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank has been required to pay premiums, which may be passed on to the associations, 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 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. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums as necessary to maintain the Insurance Fund at the 2 percent level. As required by the Farm Credit Act, as amended, the FCSIC may return excess funds above the secure base amount to System institutions.

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

B. Operations: The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow and financial services that can be offered by the association. The association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related businesses. The association makes and services short- and intermediate-term loans for agricultural production or operating purposes, and secured long-term real estate mortgage loans, with funding from the bank. The association also serves as an intermediary in offering credit life insurance and multi-peril crop insurance.

The association's financial condition may be affected by factors that affect the bank. The financial condition and results of operations of the bank may materially affect stockholders' investments in the association. The bank's Annual Report to Stockholders discusses the material aspects of the district's financial condition, changes in financial condition and results of operations. In addition, the bank's Annual Report to Stockholders identified favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Fund. Upon request, stockholders of the association will be provided with the bank's Annual Report to Stockholders.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation and Consolidation

The consolidated financial statements (the "financial statements") and the accounting and reporting policies of the association have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. 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. The consolidated financial statements include the accounts of Capital Farm Credit, PCA and Capital Farm Credit, FLCA.

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. Significant estimates are discussed in these footnotes, as applicable.

Reclassifications

Certain amounts in prior years' consolidated financial statements have been reclassified to conform to current financial statement presentation.

A. Recently Issued or Adopted Accounting Pronouncements:

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

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

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

(in thousands)	December 31, 2022	CECL adoption impact	January 1, 2023
Assets:			
Allowance for credit losses on loans	$ 21,386	$ 2,717	$ 24,103
Liabilities:			
Allowance for credit losses on unfunded commitments	456	(33)	423
Retained earnings:			
Unallocated retained earnings, net of tax	$ 610,986	$ 2,684	$ 608,302

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

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

B. Cash: Cash, as included in the balance sheet and statement of cash flows, represents cash on hand and on deposit at banks.

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

The association's investments include mortgage-backed securities issued by the Federal Agricultural Mortgage Corporation (Farmer Mac) for which the association has the intent and ability to hold to maturity and that are consequently classified as held-to-maturity. Held-to-maturity investments are carried at cost, adjusted for the amortization of premiums and accretion of discounts. Changes in the fair value of these investments are not recorded unless the investment is deemed to be other-than-temporarily impaired. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If the association 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 the association does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income.

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

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

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

D. *Loans and Allowance for Credit Losses on Loans*

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

Nonaccrual Loans

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

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

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

Accrued interest receivable

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

Loan Modifications to Borrowers Experiencing Financial Difficulty

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

Collateral dependent loans

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

Allowance for Credit Losses

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

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

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

Methodology for Allowance for Credit Losses on Loans

The allowance for credit losses is based upon estimates that consider the general financial strength of the overall economy and the agricultural economy, as well as the association's loan portfolio composition, credit administration and prior loan loss experience. The association calculates its allowance in two parts, specific allowances and a general allowance. The association evaluates all loans classified as nonaccrual for a specific allowance. This specific allowance is generally based upon the value of the collateral securing the loan relative to the loan amount outstanding. The association utilizes a third-party model to calculate its general allowance. Management has identified segments to group loans with similar repayment sources. The general allowance still utilizes the PD/LGD methodology. The model uses various economic forecasts and management applies a probability weighting based on their best estimates. The association then inputs a reasonable and supportable forecast of three years, after which the model reverts back to the mean within the next two years. Additional significant inputs into the model include prepayment rate and credit conversion factor (CCF) for the association's unfunded commitments.

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

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

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

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

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

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

The association macroeconomic forecast includes a weighted selection of the baseline, upside 10th percentile and downside 90th percentile from third party economic scenarios over a reasonable and supportable forecast period of three years. Subsequent to the forecast period, the association reverts to long run historical loss experience beyond the three years on a straight-line basis over a two year reversion period to inform the estimate of losses for the remaining contractual life of the loan portfolio.

The economic forecasts, which are updated quarterly, incorporate macroeconomic variables, including the U.S. unemployment rate, Dow Jones Total Stock Market Index and U.S. corporate bond spreads. The association also considers loan and borrower characteristics, such as internal risk ratings, industry, and the remaining term of the loan, adjusted for expected prepayments.

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

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

Allowance for Credit Losses on Unfunded Commitments

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

E. Capital Stock Investment in the Bank: 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 annually. 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 from the bank 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. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for credit 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 and not depreciated. Depreciation is provided on the straight-line method using estimated useful lives of each asset. Estimate useful lives are as follows: Buildings are 40 years, leasehold improvements are 15 years, furniture and equipment are 10 years, computer equipment and software are three years and automobiles are five years. 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 sheets. Advance conditional payments are not insured. Interest is generally paid by the association on such accounts at rates established by the board of directors.

I. Employee Benefit Plans: Substantially all employees of the association may be eligible to participate in either the district defined benefit retirement plan (DB plan) or the defined contribution plan (DC plan). All eligible employees may participate in the Farm Credit Benefits Alliance 401(k) plan. Also, the association sponsors a nonqualified defined contribution 401(k) plan. The DB plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB plan is noncontributory and provides benefits based on salary and years of service. The "Projected Unit Credit" actuarial method is used for financial reporting and funding purposes for the DB plan.

   The structure of the district's DB plan is characterized as multiemployer, 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. For the DB plan, the association recognized costs of $1,668, $3,083 and $4,435 for the years ended December 31, 2023, 2022 and 2021, respectively. Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC plan direct the placement of their employers' contributions, 5.0 percent of eligible pay for the year ended December 31, 2023, made on their behalf into various investment alternatives. The association recognized costs for the DC plan of $3,441, $3,284 and $2,813 for the years ended December 31, 2023, 2022 and 2021, respectively.

The association also participates in the Farm Credit Benefits Alliance 401(k) plan, which requires the associations to match 100 percent of employee contributions up to 3.0 percent of eligible earnings and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The association's contributions to the 401(k) plan were $2,503, $2,399 and $2,218 for the years ended December 31, 2023, 2022 and 2021, respectively.

In addition to the DB plan, the DC plan and the Farm Credit Benefits Alliance 401(k) plan discussed 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 purpose of the plan is (a) to provide eligible employees (those with compensation in excess of $100 in the immediately preceding tax year) of the association who participate in the 401(k) plan with benefits in excess of the limitations on benefits imposed; (b) to allow a means for those employees to make pretax deferrals of additional amounts payable to them to a future payment date; and (c) to allow a means for participating employers to provide discretionary deferred income to those employees. The total expenses of the nonqualified plan included in the association's employee benefit costs were $240, $144 and $617 for the years ended December 31, 2023, 2022 and 2021, respectively.

In addition to pension benefits, the association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multiemployer and, consequently, the liability for these benefits is included in other liabilities on the consolidated balance sheets. Association employees hired after January 1, 2004, will be eligible for retiree medical benefits for themselves and their spouses but will be responsible for 100 percent of the related premiums.

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 qualified allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The association distributes patronage on the basis of book income. Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the association's expected patronage program, which reduces taxable earnings.

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

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

K. Patronage Refunds From the Farm Credit Bank of Texas: The association records patronage refunds from the bank on an accrual basis.

L. Fair Value Measurement: The FASB guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. Also included in Level 1 are assets held in trust funds that relate to deferred compensation and the association's 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 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. The association does not have any assets that fall within this level.

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, and 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 disclosed 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 a 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:

Investments Held-to-Maturity

The association's held-to-maturity investments consists of Farmer Mac guaranteed agricultural mortgage-backed securities (AMBS). A summary of the amortized cost and fair value of investment securities held-to-maturity is as follows:

December 31, 2023	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**	**Weighted Average Life (Years)**
Agricultural mortgage-backed securities	**$ 1,027**	**$ -**	**$ (35)**	**$ 992**	**5.46%**	**5.42**

December 31, 2022	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**	**Weighted Average Life (Years)**
Agricultural mortgage-backed securities	$ 1,496	$ -	$ (69)	$ 1,427	5.22%	8.34

December 31, 2021	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**	**Weighted Average Life (Years)**
Agricultural mortgage-backed securities	$ 1,952	$ 49	$ -	$ 2,001	4.47%	2.69

The Farmer Mac AMBS were received in exchange for mortgage loans that were previously covered under the long-term standby commitments to purchase agreement with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions. Terms of the agreement call for a guarantee fee of 20-50 basis points to be paid to Farmer Mac and for the association to receive a 30-basis-point fee for servicing the underlying loans.

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

A summary of loans as of December 31 follows:

	2023		2022		2021	
Loan Type	**Amount**	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 8,830,351**	**72.9%**	$ 8,629,085	75.1%	$ 8,143,710	77.9%
Production and intermediate-term	**1,711,271**	**14.1%**	1,420,590	12.4%	1,149,515	11.0%
Farm-related business	**1,063,487**	**8.8%**	969,269	8.4%	812,101	7.8%
Communication	**211,603**	**1.7%**	188,748	1.7%	124,729	1.2%
Energy	**144,451**	**1.2%**	141,142	1.2%	87,493	0.8%
Rural residential real estate	**86,726**	**0.7%**	104,966	0.9%	116,927	1.1%
Water and waste disposal	**51,751**	**0.4%**	12,314	0.1%	1,366	0.0%
Lease receivables	**20,532**	**0.2%**	19,908	0.2%	18,793	0.2%
Mission-related investments	**1,729**	**0.0%**	1,803	0.0%	1,877	0.0%
Total	**$ 12,121,901**	**100.0%**	$ 11,487,825	100.0%	$ 10,456,511	100.0%

At December 31, 2023, the association held two transactions, which are reported as loans on the consolidated balance sheet totaling $1,729 and with $0 in remaining commitments 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 qualified loans in rural areas.

The association has purchased and sold participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding participations purchased and sold as of December 31, 2023:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 279,463	$ 1,070,060	$ -	$ -	$ 279,463	$ 1,070,060
Production and intermediate-term	823,308	1,269,072	1,731	-	825,039	1,269,072
Farm-related business	775,253	128,310	-	-	775,253	128,310
Communication	211,603	-	-	-	211,603	-
Energy	144,451	-	-	-	144,451	-
Water and waste disposal	51,751	-	-	-	51,751	-
Lease receivables	20,532	-	-	-	20,532	-
Mission-related investments	1,729	-	-	-	1,729	-
Total	$ 2,308,090	$ 2,467,442	$ 1,731	$ -	$ 2,309,821	$ 2,467,442

Loan Volume by Office

Offices	**2023**	2022	2021
Capital Markets*	**20.8%**	18.7%	15.1%
Bryan	**3.5%**	3.4%	3.6%
Burnet	**2.8%**	3.0%	2.8%
Lubbock	**2.7%**	2.6%	2.7%
Austin	**2.6%**	2.6%	2.7%
Hondo	**2.5%**	2.5%	2.8%
Kerrville	**2.5%**	2.6%	2.6%
San Antonio	**2.4%**	2.6%	2.5%
Fredericksburg	**2.4%**	2.5%	2.7%
Katy	**2.3%**	2.3%	2.3%
Rosenberg	**2.3%**	2.3%	2.2%
Dalhart	**2.1%**	2.3%	2.2%
Uvalde	**2.0%**	2.0%	2.1%
Conroe	**1.9%**	2.2%	2.4%
New Braunfels	**1.9%**	2.0%	2.0%
Mason	**1.9%**	2.0%	2.1%
Bowie	**1.8%**	1.9%	1.9%
El Campo	**1.8%**	1.9%	2.2%
La Grange	**1.6%**	1.8%	1.9%
Haskell	**1.5%**	1.4%	1.5%
Robstown	**1.5%**	1.5%	1.7%
Jourdanton	**1.5%**	1.4%	1.5%
Clifton	**1.5%**	1.4%	1.5%
San Angelo	**1.4%**	1.6%	1.7%
Muleshoe	**1.4%**	1.4%	2.3%
Temple	**1.4%**	1.5%	1.6%
Dayton	**1.4%**	1.5%	1.7%
Lockhart	**1.3%**	1.4%	1.4%
Bellville	**1.3%**	1.5%	1.6%
San Saba	**1.2%**	1.3%	1.4%
Kenedy	**1.2%**	1.2%	1.3%
Waco	**1.2%**	1.3%	1.4%
Edna	**1.2%**	1.2%	1.4%
Seminole	**1.1%**	1.1%	1.1%
Lamesa	**1.0%**	1.0%	1.3%
Madisonville	**1.0%**	1.0%	1.1%
Hereford	**1.0%**	0.8%	0.9%
Taylor	**1.0%**	1.1%	1.2%
Round Rock Credit	**1.0%**	0.9%	1.0%
Laredo	**1.0%**	1.0%	1.0%
Wichita Falls	**0.9%**	0.8%	1.0%
Abilene	**0.8%**	0.8%	0.9%
Bay City	**0.8%**	0.9%	0.9%
Pampa	**0.8%**	0.8%	0.9%
Spur	**0.8%**	0.8%	0.8%
Edinburg	**0.8%**	0.9%	0.9%
Dimmitt	**0.8%**	0.8%	0.8%
Perryton	**0.7%**	0.7%	0.6%
Livingston	**0.6%**	0.5%	0.5%
Snyder	**0.6%**	0.5%	0.6%
All Other Offices	**4.5%**	4.8%	3.7%
Total	**100.0%**	100.0%	100.0%

*Capital Markets loans include loans purchased from other entities and/or outside of the association's territory. Stamford and Munday were consolidated into the Haskell branch in 2023. Crockett was moved to "All Other Offices" in 2021.

The association's concentration of credit risk in various agricultural commodities is shown in the following table. Though the amounts represent the association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the association's lending activities is collateralized, and the association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the association's credit risk exposure is considered in the determination of the allowance for credit losses.

	2023		2022		2021	
Operation/Commodity	**Amount**	**%**	Amount	%	Amount	%
Livestock	**$ 5,891,360**	**48.6%**	$ 5,738,490	50.0%	$ 5,330,858	51.0%
Crops	**1,807,690**	**14.9%**	$ 1,749,333	15.2%	$ 1,700,133	16.2%
Hunting	**1,448,513**	**11.9%**	$ 1,412,061	12.3%	$ 1,291,789	12.4%
Dairy	**695,851**	**5.7%**	$ 602,687	5.3%	$ 517,939	5.0%
Utilities	**351,167**	**2.9%**	$ 308,188	2.7%	$ 219,586	2.1%
Timber	**228,598**	**1.9%**	$ 243,112	2.1%	$ 250,397	2.4%
Rural home loans	**163,796**	**1.4%**	$ 187,114	1.6%	$ 200,001	1.9%
Poultry	**104,635**	**0.9%**	$ 108,117	0.9%	$ 87,465	0.8%
Industrial/organic chemical	**5,132**	**0.0%**	$ 7,928	0.1%	$ 8,573	0.1%
Other	**1,425,159**	**11.8%**	$ 1,130,795	9.8%	$ 849,770	8.1%
Total	**$ 12,121,901**	**100.0%**	$ 11,487,825	100.0%	$ 10,456,511	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 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 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, 2023, 2022 and 2021, loans totaling $6,704, $7,558 and $8,017, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $23, $28 and $35 in 2023, 2022 and 2021, respectively, and are included in "other noninterest expense" in the consolidated statements of comprehensive income.

Credit Quality

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

The association uses a two-dimensional risk rating model based on an internally generated combined System risk rating guidance that incorporates a 14-point probability of default rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default. Probability of default is the probability that a borrower will experience a default during the life of the loan. The loss given default is management's estimate as to the anticipated principal loss on a specific loan assuming default occurs during the remaining life of the loan. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower or the loan is classified nonaccrual. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses and risks in a particular relationship. The association reviews, at least on an annual basis, or when a credit action is taken the probability of default category and the loss given default.

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

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

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

	Term Loans Amortized Cost by Origination Year								
	2023	2022	2021	2020	2019	Prior	Revolving Loans	Revolving Loans Converted to Term Loans	Total
Real estate mortgage									
Acceptable	$ 1,136,168	$ 1,471,279	$ 2,367,765	$ 1,374,759	$ 568,251	$1,711,142	$ 226	$ 51,013	$ 8,680,603
OAEM	11,556	10,825	15,168	27,715	13,660	18,498	-	174	97,596
Substandard/Doubtful	2,474	15,590	8,682	5,588	5,435	10,541	3,842	-	52,152
Total	$ 1,150,198	$ 1,497,694	$ 2,391,615	$ 1,408,062	$ 587,346	$1,740,181	$ 4,068	$ 51,187	$ 8,830,351
Current period gross charge-offs	-	-	6	1	78	11	-	-	96
Production and intermediate-term									
Acceptable	258,481	176,169	110,457	42,196	39,578	70,680	935,600	15,473	1,648,634
OAEM	8,355	576	143	300	698	220	38,936	-	49,228
Substandard/Doubtful	2,732	288	1,033	1,129	227	1,507	6,493	-	13,409
Total	269,568	177,033	111,633	43,625	40,503	72,407	981,029	15,473	1,711,271
Current period gross charge-offs	-	-	-	-	13	-	2,299	-	2,312
Farm-related business									
Acceptable	144,040	199,171	171,509	63,187	55,176	63,487	248,944	34,095	979,609
OAEM	-	533	6,098	10,594	-	8,640	8,486	366	34,717
Substandard/Doubtful	2,881	-	14,615	16,948	3,446	1,610	9,661	-	49,161
Total	146,921	199,704	192,222	90,729	58,622	73,737	267,091	34,461	1,063,487
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Communication									
Acceptable	30,251	37,114	73,824	22,980	21,523	-	5,315	-	191,007
OAEM	-	14,905	-	5,397	-	-	294	-	20,596
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
Total	30,251	52,019	73,824	28,377	21,523	-	5,609	-	211,603
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Energy									
Acceptable	5,838	36,523	35,868	-	-	28,414	27,757	9,558	143,958
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	493	-	-	493
Total	5,838	36,523	35,868	-	-	28,907	27,757	9,558	144,451
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Rural residential real estate									
Acceptable	419	11,041	21,360	17,784	7,952	26,714	-	-	85,270
OAEM	-	13	100	470	-	620	-	-	1,203
Substandard/Doubtful	-	54	-	-	-	199	-	-	253
Total	419	11,108	21,460	18,254	7,952	27,533	-	-	86,726
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Water and Waste Disposal Loans									
Acceptable	14,489	35,957	-	1,305	-	-	-	-	51,751
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
Total	14,489	35,957	-	1,305	-	-	-	-	51,751
Current period gross charge-offs	-	-	-	-	-	-	-	-	-

	Term Loans Amortized Cost by Origination Year								
	2023	2022	2021	2020	2019	Prior	Revolving Loans	Revolving Loans Converted to Term Loans	Total
Lease Receivables									
Acceptable	4,647	3,383	759	259	-	3,931	-	-	12,979
OAEM	-	-	151	1,222	-	2,532	-	-	3,905
Substandard/Doubtful	-	-	3,648	-	-	-	-	-	3,648
Total	4,647	3,383	4,558	1,481	-	6,463	-	-	20,532
Current period gross charge-offs	-	-	-	-	-	1,309	-	-	1,309
Mission Related Loans									
Acceptable	-	-	-	-	-	1,729	-	-	1,729
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	1,729	-	-	1,729
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Total Loans									
Acceptable	$ 1,594,333	$ 1,970,637	$ 2,781,542	$ 1,522,470	$ 692,480	$1,906,097	$ 1,217,842	$ 110,139	$ 11,795,540
OAEM	19,911	26,852	21,660	45,698	14,358	30,510	47,716	540	207,245
Substandard/Doubtful	8,087	15,932	27,978	23,665	9,108	14,350	19,996	-	119,116
Total	$ 1,622,331	$ 2,013,421	$ 2,831,180	$ 1,591,833	$ 715,946	$1,950,957	$ 1,285,554	$ 110,679	$ 12,121,901
Total current period gross charge-offs	-	-	6	1	91	1,320	2,299	-	3,717

The following table shows loans classified under the Farm Credit Administration's Uniform Loan Classification System as a percentage of total loans by loan type as of December 31, 2023, 2022 and 2021:

	2023	2022	2021
Real estate mortgage			
Acceptable	**98.3%**	98.9%	98.6%
OAEM	**1.1%**	0.6%	0.9%
Substandard/doubtful	**0.6%**	0.5%	0.5%
	100.0%	100.0%	100.0%
Production and intermediate-term			
Acceptable	**96.3%**	98.1%	96.8%
OAEM	**2.9%**	0.8%	1.1%
Substandard/doubtful	**0.8%**	1.1%	2.1%
	100.0%	100.0%	100.0%
Farm-related business			
Acceptable	**92.1%**	94.0%	94.1%
OAEM	**3.3%**	1.6%	4.7%
Substandard/doubtful	**4.6%**	4.4%	1.2%
	100.0%	100.0%	100.0%
Communication			
Acceptable	**90.3%**	100.0%	100.0%
OAEM	**9.7%**	-	-
Substandard/doubtful	-	-	-
	100.0%	100.0%	100.0%
Energy			
Acceptable	**99.7%**	98.0%	87.8%
OAEM	-	-	-
Substandard/doubtful	**0.3%**	2.0%	12.2%
	100.0%	100.0%	100.0%
Rural residential real estate			
Acceptable	**98.3%**	98.4%	98.8%
OAEM	**1.4%**	1.4%	0.8%
Substandard/doubtful	**0.3%**	0.2%	0.4%
	100.0%	100.0%	100.0%
Water and waste disposal			
Acceptable	**100.0%**	100.0%	100.0%
OAEM	-	-	-
Substandard/doubtful	-	-	-
	100.0%	100.0%	100.0%
Lease receivables			
Acceptable	**63.2%**	74.2%	94.1%
OAEM	**19.0%**	19.3%	-
Substandard/doubtful	**17.8%**	6.5%	5.9%
	100.0%	100.0%	100.0%
Mission-related investments			
Acceptable	**100.0%**	100.0%	100.0%
OAEM	-	-	-
Substandard/doubtful	-	-	-
	100.0%	100.0%	100.0%
Total loans			
Acceptable	**97.3%**	98.4%	97.9%
OAEM	**1.7%**	0.7%	1.2%
Substandard/doubtful	**1.0%**	0.9%	0.9%
	100.0%	100.0%	100.0%

There were no loans in the loss category.

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

	December 31, 2023	December 31, 2022	December 31, 2021
Nonaccrual loans:			
Real estate mortgage	**$ 15,505**	$ 25,539	$ 16,450
Production and intermediate-term	**3,741**	9,950	8,662
Farm-related business	**16,172**	16,401	2,005
Energy	**493**	2,818	10,742
Residential real estate	**98**	128	252
Lease receivables	**-**	1,297	-
Total nonaccrual loans	**$ 36,009**	$ 56,133	$ 38,111
Accruing loans 90 days or more past due:			
Production and intermediate-term	**-**	1,186	785
Total accruing loans 90 days or more past due	**$ -**	$ 1,186	$ 785
Total nonperforming loans	**$ 36,009**	$ 57,319	$ 38,896
Other property owned, net	**23,177**	2,924	927
Total nonperforming assets	**$ 59,186**	$ 60,243	$ 39,823
Nonaccrual loans as a percentage of total loans	**0.30%**	0.49%	0.36%
Nonperforming assets as a percentage of total loans and other property owned	**0.49%**	0.52%	0.38%
Nonperforming assets as a percentage of capital	**3.29%**	3.49%	2.44%

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

	December 31, 2023			**Interest Income Recognized**
	Amortized Cost with Allowance	**Amortized Cost without Allowance**	**Total**	**For the Year Ended December 31, 2023**
Nonaccrual loans:				
Real estate mortgage	$ -	$ 15,505	$ 15,505	$ 1,054
Production and intermediate-term	1,505	2,236	3,741	224
Farm-related business	10,341	5,831	16,172	869
Energy	493	-	493	-
Rural residential real estate	-	98	98	16
Total nonaccrual loans	$ 12,339	$ 23,670	$ 36,009	$ 2,163

Accrued interest receivable on loans of $108,578 and $84,311 at December 31, 2023 and December 31, 2022, respectively, have been excluded from the amortized cost of loans and reported separately in the consolidated balance sheets. The association wrote off accrued interest receivable of $191 during 2023.

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

December 31, 2023	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Loans >90 Days and Accruing
Real estate mortgage	**$ 83,746**	**$ 4,787**	**$ 88,533**	**$ 8,741,818**	**$ 8,830,351**	**-**
Production and intermediate-term	**19,228**	**315**	**19,543**	**1,691,728**	**1,711,271**	**-**
Farm-related business	**3,237**	**16,172**	**19,409**	**1,044,078**	**1,063,487**	**-**
Communication	**-**	**-**	**-**	**211,603**	**211,603**	**-**
Energy	**-**	**-**	**-**	**144,451**	**144,451**	**-**
Rural residential real estate	**1,278**	**21**	**1,299**	**85,427**	**86,726**	**-**
Water and waste disposal	**-**	**-**	**-**	**51,751**	**51,751**	**-**
Lease receivables	**1,507**	**-**	**1,507**	**19,025**	**20,532**	**-**
Mission-related investments	**-**	**-**	**-**	**1,729**	**1,729**	**-**
Total	**$ 108,996**	**$ 21,295**	**$ 130,291**	**$ 11,991,610**	**$ 12,121,901**	**$ -**

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

December 31, 2022	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Loans >90 Days and Accruing
Real estate mortgage	$ 70,127	$ 16,698	$ 86,825	$ 8,608,541	$ 8,695,366	$ -
Production and intermediate-term	35,003	7,738	42,741	1,389,733	1,432,474	1,186
Farm-related business	9,083	-	9,083	964,982	974,065	-
Communication	-	-	-	188,994	188,994	-
Energy	-	-	-	141,783	141,783	-
Rural residential real estate	1,536	43	1,579	103,752	105,331	-
Water and waste disposal	-	-	-	12,318	12,318	-
Lease receivables	-	1,297	1,297	18,686	19,983	-
Mission-related investments	-	-	-	1,822	1,822	-
Total	$ 115,749	$ 25,776	$ 141,525	$ 11,430,611	$ 11,572,136	$ 1,186

December 31, 2021	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Loans >90 Days and Accruing
Real estate mortgage	$ 66,499	$ 5,969	$ 72,468	$ 8,126,322	$ 8,198,790	$ -
Production and intermediate-term	6,774	4,910	11,684	1,144,529	1,156,213	785
Farm-related business	408	-	408	813,956	814,364	-
Communication	-	-	-	124,841	124,841	-
Energy	-	8,076	8,076	79,660	87,736	-
Rural residential real estate	1,775	-	1,775	115,533	117,308	-
Water and waste disposal	-	-	-	1,366	1,366	-
Lease receivables	-	-	-	18,849	18,849	-
Mission-related investments	-	-	-	1,896	1,896	-
Total	$ 75,456	$ 18,955	$ 94,411	$ 10,426,952	$ 10,521,363	$ 785

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

Loan Modifications to Borrowers Experiencing Financial Difficulties

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

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

	Year Ended December 31, 2023			
	Term Extension	Payment Deferral	Total	Percentage of Total by Loan Type
Real estate mortgage	$ 2,392	$ -	$ 2,392	19.5%
Production and intermediate-term	-	2,473	2,473	20.1%
Farm-related business	7,425	-	7,425	60.4%
Total	$ 9,817	$ 2,473	$ 12,290	100.0%

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty during 2023 was $79 at December 31, 2023.

The following tables describe the financial effect of the modifications made to borrowers experiencing financial difficulty during 2023:

	Financial Effect
	For the Year Ended December 31, 2023
	Term Extension Financial Effect
Real estate mortgage	6,605 days
Farm-related business	31 days
	Payment Deferral Financial Effect
Production and intermediate-term	181 days

The following table sets forth the amortized cost of loans to borrowers experiencing financial difficulty that received a modification during 2023 and that defaulted in the period presented:

	Modified Loans that Subsequently Defaulted
	Term Extension
Real estate mortgage	$ 1,526
Farm-related business	2,919
Total	**$ 4,445**

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

	Payment Status of Loans Modified in the Past 12 Months		
	Current	30-89 Days Past Due	90 Days or More Past Due
Real estate mortgage	2,392	-	-
Production and intermediate-term	2,473	-	-
Farm-related business	-	2,919	4,506
Total	**$ 4,865**	**$ 2,919**	**$ 4,506**

Additional commitments to lend to borrowers experiencing financial difficulty whose loans have been modified were $2,893 at December 31, 2023.

Troubled Debt Restructurings

Prior to January 1, 2023, the adoption of updated FASB guidance on loan modifications, a restructuring of a loan constituted a troubled debt restructuring, also known as formally restructured, if the creditor for economic or legal reasons related to the borrower's financial difficulties granted a concession to the borrower that it would not otherwise consider. Concessions varied by program and were borrower-specific and could include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may have been forgiven. When a restructured loan constituted a troubled debt restructuring, these loans were included within our impaired loans under nonaccrual or accruing restructured loans. The following tables present additional information regarding troubled debt restructurings that occurred during the year ended December 31, 2022 and 2021:

The pre-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The post-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred.

2022	Balance Pre-TDR designation	Balance Post-TDR designation
Troubled debt restructurings:		
Real estate mortgage	$ 1,431	$ 1,434
Production and intermediate- term	608	363
Energy	8,076	2,150
Total	$ 10,115	$ 3,947

2021	Balance Pre-TDR designation	Balance Post-TDR designation
Troubled debt restructurings:		
Real estate mortgage	$ 3,515	$ 3,566
Production and intermediate- term	432	361
Total	$ 3,947	$ 3,927

The following table presents information regarding 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.

Troubled debt restructurings that subsequently defaulted:	Recorded Investment at December 31, 2022	Recorded Investment at December 31, 2021
Real estate mortgage	$ -	$ 2,365
Production and intermediate- term	-	198
Total	$ -	$ 2,563

Additional commitments to lend to borrowers whose loans have been modified in TDRs was $5,215 at December 31, 2022 and $783 at December 31, 2021.

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
Troubled debt restructurings:		
Real estate mortgage	$ 6,394	$ 7,662
Production and intermediate- term	3,995	7,752
Farm-related business	1,729	-
Energy	2,150	1,799
Mission-related investments	1,803	1,877
Total	$ 16,071	$ 19,090

	TDRs in Nonaccrual Status*	
	December 31, 2022	December 31, 2021
Troubled debt restructurings:		
Real estate mortgage	$ 2,050	$ 2,605
Production and intermediate- term	2,938	5,882
Energy	2,150	1,799
Total	$ 7,138	$ 10,286

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

Allowance for Credit Losses

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

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

	Real Estate Mortgage	Production and Intermediate Term	Farm related business	Rural Residential Real Estate	Energy and Water/Waste Disposal	Communication	Mission Related Investments	Lease Receivable	Total
Allowance for Credit Losses on Loan:									
Balance at December 31, 2022	$ 13,067	$ 4,512	$ 2,444	$ 38	$ 735	$ 190	$ -	$ 400	$ 21,386
Charge-offs	(96)	(2,312)	-	-	-	-	-	(1,309)	(3,717)
Recoveries	137	911	113	3	30	-	-	-	1,194
Provision for (reversal of) loan losses	1,709	2,568	3,158	(51)	(471)	329	-	1,284	8,526
CECL Adjustment-Allowance	1,042	(750)	1,790	162	110	149	6	208	2,717
Balance at December 31, 2023	$ 15,859	$ 4,929	$ 7,505	$ 152	$ 404	$ 668	$ 6	$ 583	$ 30,106
Allowance for Credit Losses on Unfunded Commitments:									
Balance at December 31, 2022	$ 3	$ 276	$ 164	$ -	$ 9	$ 4	$ -	$ -	$ 456
Provision for (reversal of) loan losses	8	41	(63)	-	3	3	-	-	(8)
CECL Adjustment-unfunded commitments	14	(150)	100	-	-	3	-	-	(33)
Balance at December 31, 2023	$ 25	$ 167	$ 201	$ -	$ 12	$ 10	$ -	$ -	$ 415

The allowance for credit losses as of December 31, 2023 was $30,521, reflecting an increase of $8,679 from December 31, 2022. Excluding the impact of the adoption of the CECL accounting guidance of $2,684 as previously discussed, the increase was driven by a slight deterioration in credit quality in the overall portfolio.

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

Allowance for Credit Losses - Prior to CECL Adoption

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

	Real Estate Mortgage	Production and Intermediate Term	Farm-related business	Rural Residential Real Estate	Communication	Energy and Water and Waste Disposal	Mission-Related Investments	Lease Receivable	Total
Allowance for Credit Losses:									
Balance at December 31, 2021	$ 11,221	$ 5,501	$ 2,519	$ 38	$ 128	$ 3,476	$ 47	$ 66	$ 22,996
Charge-offs	(213)	(1,155)	-	-	-	(712)	-	-	(2,080)
Recoveries	142	778	649	3	-	-	-	-	1,572
(Reversal) provision for credit losses	1,906	(536)	(684)	(3)	58	(2,031)	(47)	334	(1,003)
Transfer from reserve on unfunded commitments	11	(76)	(40)	-	4	2	-	-	(99)
Balance at December 31, 2022	$ 13,067	$ 4,512	$ 2,444	$ 38	$ 190	$ 735	$ -	$ 400	$ 21,386

	Real Estate Mortgage	Production and Intermediate Term	Farm-related business	Rural Residential Real Estate	Communication	Energy and Water and Waste Disposal	Mission-Related Investments	Lease Receivable	Total
Allowance for credit Losses:									
Balance at December 31, 2020	$ 14,487	$ 11,394	$ 3,556	$ 87	$ 151	$ 1,522	$ 45	$ 350	$ 31,592
Charge-offs	-	(752)	-	-	-	-	-	-	(752)
Recoveries	136	595	395	7	-	-	-	-	1,133
Provision for credit losses	(3,410)	(5,973)	(1,420)	(56)	(17)	1,960	2	(284)	(9,198)
Transfer to reserve on unfunded commitments	8	237	(12)	-	(6)	(6)	-	-	221
Balance at December 31, 2021	$ 11,221	$ 5,501	$ 2,519	$ 38	$ 128	$ 3,476	$ 47	$ 66	$ 22,996

NOTE 5 — LEASES

The association evaluates arrangements at inception to determine if it meets the criteria for a lease. Leases with an initial term of 12 months or less are not recorded on the balance sheet with lease expense recognized on a straight-line basis over the lease term. Operating leases with terms greater than 12 months are included in right of use asset-leases (ROU) and lease liabilities on the balance sheet.

ROU assets represent the association's right to use an underlying asset for the lease term, and lease liabilities represent the association's obligation to make lease payments arising from the lease. Operating ROU assets and liabilities are recognized based on the present value of the lease payments over the lease term. As the rate implicit in the lease is generally not readily determinable for our operating leases, the discount rates used to determine the present value of our lease liability are based on our incremental borrowing rate at the lease commencement date and commensurate with the remaining lease term. Our incremental borrowing rate for a lease is our cost of funds from the bank over a similar term at an amount equal to the lease payments in a similar economic environment. The association's lease terms may include options to extend or terminate the lease when it is reasonably certain that the association will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The components of lease expense were as follows:

		For the year ended December 31,	
	Classification	**2023**	2022
Operating lease cost	Operating	**$ 2,951**	$ 2,790
Short-term lease cost	Operating	**233**	205
Net lease cost		**$ 3,184**	$ 2,995

Other information related to leases was as follows:

	For the year ended December 31,	
	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	**$ 2,908**	$ 2,770
Right-of-use assets obtained in exchange for new lease obligations:		
Operating leases	**$ 686**	$ 1,876

Lease term and discount rate are as follows:

	December 31, 2023	December 31, 2022
Weighted average remaining lease term in years:		
Operating leases	**2.39**	3.00
Weighted average discount rate:		
Operating leases	**3.2%**	2.5%

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

	Total Operating Leases
2024	$ 2,863
2025	1,890
2026	1,194
2027	948
2028	862
Thereafter	988
Total lease payments	8,745
Less: interest	-
Total	$ 8,745

The association leases office space in Abilene, Amarillo, Austin, Bay City, Boerne, Brenham, Bryan, Burnet, Conroe, Crockett, Devine, Edinburg, El Paso, Fredericksburg, Harlingen, Haskell, Hondo, Katy, La Grange, Laredo, Livingston, Lubbock, New Braunfels, Robstown, Round Rock, San Angelo, San Antonio, Victoria, Seminole, Waco and Winnie, Texas. The association also has leases for billboards and postage meters as of December 31, 2023, 2022 and 2021. Lease expense was $3,184, $2,995 and $2,850 for 2023, 2022 and 2021, respectively.

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 41.3 percent, 40.7 percent and 38.8 percent of the issued stock of the bank as of December 31, 2023, 2022 and 2021. As of those dates, the bank's assets totaled $37,283,319, $35,990,140 and $33,093,388, respectively, and members' equity totaled $1,686,694, $1,623,363 and $1,998,196, respectively. The bank's earnings were $199,906, $269,886 and $254,591 during 2023, 2022 and 2021, respectively.

NOTE 7 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2023	2022	2021
Land and Improvements	**$ 8,637**	$ 5,243	$ 4,010
Building and leasehold improvements	**59,230**	16,392	16,610
Furniture and equipment	**2,729**	2,030	2,021
Computer equipment and software	**2,987**	3,277	2,724
Automobiles	**8,063**	8,019	7,571
Construction in progress	**5,841**	49	3
	87,487	35,010	32,939
Accumulated depreciation	**(18,417)**	(17,890)	(19,171)
Total	**$ 69,070**	$ 17,120	$ 13,768

In July 2023, the association purchased a building in College Station, Texas. The association intends to complete some renovations and expects to relocate its corporate headquarters and credit office to the new building during the second half of 2024.

NOTE 8 – OTHER PROPERTY OWNED, NET:

Net gain/(loss) on other property owned, net consisted of the following for the years ended December 31:

	2023	2022	2021
Gain/ (loss) on sale of other property	**$ 694**	$ (272)	$ 52
Carrying value adjustments	**(145)**	(40)	(12)
Operating income/(expense), net	**555**	(26)	39
Net gain/(loss) on other property owned	**$ 1,104**	$ (338)	$ 79

The association's other property owned (OPO) at December 31, 2023, includes seven properties totaling 6,047 acres. All these properties have been individually appraised, and the carrying amounts are not in excess of appraised values at December 31, 2023.

NOTE 9 – OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	2023	2022	2021
Nonqualified deferred compensation trust	**$ 8,462**	$ 8,339	$ 11,121
Prepaid captive insurance premium	**2,834**	3,047	2,565
Crop insurance commission receivable	**1,366**	2,360	2,988
Acquisition intangibles	**1,106**	1,345	1,606
Other assets	**4,884**	3,851	1,312
Total assets	**$ 18,652**	$ 18,942	$ 19,592

Other liabilities comprised the following at December 31:

	2023	2022	2021
Accounts payable	**$ 29,110**	$ 28,397	$ 27,547
FCS insurance payable	**17,392**	18,050	11,860
Nonqualified deferred compensation payable	**8,462**	8,339	11,121
Annual leave payable	**4,226**	4,089	3,501
Other liabilities	**15,386**	19,217	19,088
Total liabilities	**$ 74,576**	$ 78,092	$ 73,117

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, 2026, unless sooner terminated by the bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days prior written notice, or in all other circumstances, upon giving the bank 120 days prior written notice.

The total amount and the weighted average interest rate of the association's direct loan from the bank at December 31, 2023, 2022 and 2021 were $10,524,700 at 4.00 percent, $9,840,475 at 3.20 percent and $8,873,812 at 1.80 percent, respectively.

Under the Act, the association is obligated to borrow only from the bank unless the bank approves borrowing from other funding sources. The bank and FCA regulations have established limitations on the association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2023, 2022 and 2021, the association's note payable was within the specified limitations. The maximum amount the association may borrow from the bank as of December 31, 2023, was $12,017,713 as defined by the general financing agreement. This borrowing limit changes as the borrowing base increases or decreases.

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 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 and reduction of lending limits or repayment of indebtedness. As of and for the years ended December 31, 2023, 2022 and 2021, the association was not subject to remedies associated with the covenants in the general financing agreement. Other than the funding relationship with the bank, the association has no other uninsured or insured debt.

NOTE 11 — MEMBERS' EQUITY:

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

Preferred Stock

On January 19, 2021, the association issued $200,000 in noncumulative perpetual preferred stock. The decision to issue preferred stock came in response to the high level of loan growth over the last three years. The issuance carries an annual dividend rate of 5.00 percent paid quarterly. The issuance will be callable March 15, 2026, and quarterly thereafter. If not called, the dividend will reset for the next five years to 4.52 percent over the five-year treasury on the call date. The association made dividend payments on March 15, June 15, September 15, and December 15, 2023, for a total amount of $10,000.

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 or participation certificates is equal to 2 percent of the loan amount, up to a maximum amount of one thousand dollars. The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually by adding the aggregate par value of the capital stock or participation certificates to the principal amount of the related loan obligation. The capital stock or participation certificates are subject to a first lien by the association. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding capital stock or participation certificates.

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

Each owner of Class B capital stock is entitled to a single vote, though participation certificates provide no voting rights to their owners except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference.

Within two years of repayment of a loan, the association capital bylaws require the conversion of any borrower's outstanding Class B and participation certificates to Class A stock. Class A stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of capital stock and participation certificates is made solely at the discretion of the association's board of directors. At December 31, 2023, 2022 and 2021, the association did not have any material Class A stock outstanding.

All stock and allocated equities are at-risk. Net losses recorded by the association shall first be applied against unallocated retained earnings. To the extent such losses exceed unallocated retained earnings, such losses would be applied in accordance with association bylaws and be borne first on a pro-rata basis by holders of all allocated equities and then on a pro rata basis by all holders of Class A stock, Class B capital stock and participation certificates and then on a pro-rata basis by all holders of preferred stock. In the event of liquidation or dissolution of the association, any assets of the association remaining after payment or retirement of all liabilities shall first be distributed to the holders of preferred stock pro-rata in proportion to the number of shares of preferred stock then outstanding until an amount equal to the aggregate par value of all shares of such preferred stock issued and outstanding has been distributed to such holders; second to the holders of stock and participation certificates pro rata in proportion to the number of shares or 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; third, to the holders of qualified allocated earnings on the basis of the oldest allocations first, until an amount equal to the balance outstanding in this account has been distributed to the holders; fourth, to the holders of nonqualified allocated earnings on a pro rata basis until an amount equal to the total of all notices outstanding has been distributed to the holders; and fifth, any remaining assets of the association in excess of the association's obligations to external parties and to the bank shall be distributed to the members, in proportion to which the aggregate patronage of each such member bears to the total patronage of all such parties insofar as practicable, unless provided by law.

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

			Cash Patronage		
Date Declared		**Nonqualified Allocated Retained Earnings Issued**		**Amount**	**Date Paid (Payable)**
December 2023	**$**	**124,707**	**$**	**118,791**	**March 2024**
December 2022	$	142,433	$	127,595	March 2023
December 2021	$	125,700	$	108,069	March 2022

The association may create and maintain an allocated surplus account consisting of earnings held therein and allocated to borrowers on a patronage basis pursuant to its bylaws. Allocated surplus may be evidenced by either "qualified written notices of allocation" or "nonqualified written notices of allocation," or both.

All allocations in the form of qualified written notices of allocation shall be issued in annual series and shall be identified by the year of issuance. Each such series shall be retired fully or on a pro rata basis, only at the discretion of the board, in order of issuance by years as funds are available. Currently, the association has no qualified allocated equity outstanding.

All allocations in the form of nonqualified notices of allocation shall be issued in annual series and identified by the year of issuance. Each annual series may be subdivided between two or more classes. Each such series, or class thereof, shall be retired at the discretion of the board. The association currently has the following series of nonqualified allocated retained earnings outstanding, which includes adjustments made to finalize the computation of these contributions.

Declaration for Year		Nonqualified Allocated Retained Earnings
2015	$	80,881
2016		77,795
2017		86,341
2018		97,044
2019		87,987
2020		117,585
2021		125,700
2022		142,433
2023		124,707
Total	**$**	**940,473**

In October 2023, the board of directors approved a resolution to retire $70,065 in nonqualified allocated equities that were paid to the stockholders in November 2023. The equities retired represented the earnings allocated in 2014.

In September 2022, the board of directors approved a resolution to retire $59,747 in nonqualified allocated equities that were paid to the stockholders in November 2022. The equities retired represented the remaining earnings allocated in 2013.

In September 2021, the board of directors approved a resolution to retire $60,000 in nonqualified allocated equities that were paid to the stockholders in December 2021. The equities retired represented the remaining earnings allocated in 2012 and 24 percent of the earnings allocated in 2013.

The Farm Credit Administration sets minimum regulatory capital requirements for banks and associations. Effective January 1, 2017, regulatory capital requirements for banks and associations were adopted. These 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 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 (UREE) Leverage ratio that are applicable to both the banks and associations. The Permanent Capital Ratio continues to remain in effect; however, the risk-weighted assets are calculated differently than in the past. As of December 31, 2023, the association is not prohibited from retiring stock or distributing earnings. Furthermore, neither the board nor senior management knows of any such prohibitions that may apply during the subsequent fiscal year.

The following sets forth the regulatory capital ratio requirements and ratios at December 31, 2023:

	Regulatory Minimums	Capital Conservation Buffers	Total	Association's ratios as of December 31, 2023
Risk-adjusted:				
Common equity tier 1 ratio	4.50%	2.50%	7.00%	11.5%
Tier 1 capital ratio	6.00%	2.50%	8.50%	13.0%
Total capital ratio	8.00%	2.50%	10.50%	13.3%
Permanent capital ratio	7.00%	0.00%	7.00%	13.1%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.00%	1.00%	5.00%	13.9%
UREE leverage ratio	1.50%	0.00%	1.50%	5.0%

Risk-adjusted assets have been defined by FCA Regulation as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes that generally have the impact of increasing risk-adjusted 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-adjusted assets is calculated differently for the permanent capital ratio compared to the other risk-based capital ratios. The primary difference is the deduction of the allowance for loan losses from risk-adjusted assets for the permanent capital ratio.

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

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

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

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

(dollars in thousands)		Common Equity Tier 1 Ratio		Tier 1 Capital Ratio		Total Capital Ratio		Permanent Capital Ratio
Numerator:								
Unallocated retained earnings	$	808,977	$	808,977	$	808,977	$	808,977
Common Cooperative Equities:								
Statutory minimum purchased borrower stock		28,003		28,003		28,003		28,003
Allocated equities held ≥seven years		846,733		846,733		846,733		846,733
Nonqualified allocated equities not subject to retirement		-						
Non-cumulative perpetual preferred stock		-		200,000		200,000		200,000
Allowance for loan losses and reserve for credit losses subject to certain limitations*		-		-		29,950		-
Regulatory Adjustments and Deductions:								
Amount of allocated investments in other System institutions		(192,950)		(192,950)		(192,950)		(192,950)
Other regulatory required deductions		(1,128)		(1,128)		(1,128)		(1,128)
	$	**1,489,635**	**$**	**1,689,635**	**$**	**1,719,585**	**$**	**1,689,635**
Denominator:								
Risk-adjusted assets excluding allowance	$	13,173,295	$	13,173,295	$	13,173,295	$	13,173,295
Regulatory Adjustments and Deductions:								
Regulatory deductions included in total capital		(194,078)		(194,078)		(194,078)		(194,078)
Allowance for loan losses								(29,501)
	$	**12,979,217**	**$**	**12,979,217**	**$**	**12,979,217**	**$**	**12,949,716**

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

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

		Tier 1 Leverage Ratio		**UREE Leverage Ratio**
Numerator:				
Unallocated retained earnings	$	808,977	$	808,977
Statutory minimum purchased borrower stock		28,003		-
Allocated equities held ≥seven years		846,733		-
Non-cumulative perpetual preferred stock		200,000		-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions		(192,950)		(192,950)
Other regulatory required deductions		(1,128)		(1,128)
	$	**1,689,635**	**$**	**614,899**
Denominator:				
Total Assets	$	12,416,443	$	12,416,443
Regulatory Adjustments and Deductions:				
Regulatory deductions included in tier 1 capital		(219,900)		(219,900)
	$	**12,196,543**	**$**	**12,196,543**

An FCA regulation empowers the FCA to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

At December 31, the association did not have shares of Class A capital stock, but it did have the following shares of Class B stock and participation certificates outstanding at a par value of $5 per share:

	2023	2022	2021
Class B stock	**5,381**	5,408	5,401
Participation certificates	**223**	259	281
Total	**5,604**	5,667	5,682

The association's accumulated other comprehensive income (loss) relates entirely to its non-pension 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:

	2023	2022	2021
Accumulated other comprehensive income/(loss) at January 1	**$ 3,193**	$ (2,957)	$ (3,557)
Actuarial (losses)/gains	**(49)**	6,219	555
Prior service (cost) credit	**-**	-	-
Amortization of prior service (credit) included in salaries and employee benefits	**(183)**	(183)	(183)
Amortization of actuarial (gain)/loss included in salaries and employee benefits	**(110)**	114	228
Income tax expense related to items of other comprehensive income	**-**	-	-
Other comprehensive (loss)/ gain, net of tax	**(342)**	6,150	600
Accumulated other comprehensive income (loss) at December 31	**$ 2,851**	$ 3,193	$ (2,957)

NOTE 12 — INCOME TAXES:

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

	2023	2022	2021
Current federal tax	**$ 8**	$ (1)	$ 50
Deferred federal tax	**-**	-	-
Provision for/(benefit from) income taxes	**$ 8**	$ (1)	$ 50

The association has a net operating loss carryforward of $21,696 available to offset against future taxable income of which $1,039 will expire in 2024, $1,811 will expire in 2025, $8,512 will expire in 2029 and $10,334 will expire in 2030.

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:

	2023	2022	2021
Federal tax at statutory rate	**$ 56,768**	$ 60,125	$ 54,970
Federal income tax attributable to:			
Income not subject to federal tax	**(51,757)**	(55,378)	(51,459)
Nondeductible provision for loan losses	**443**	(161)	(788)
Patronage distributions	**(5,177)**	(4,628)	(2,775)
Recoveries (charge-offs) on loans	**(275)**	45	56
Other	**6**	(4)	46
Provision for (Benefit from) income taxes	**$ 8**	$ (1)	$ 50

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

	2023	2022	2021
Allowance for losses on loans	**$ 833**	$ 1,580	$ 1,696
Net operating loss carryfoward	**4,556**	4,556	4,556
Deferred tax assets	**5,389**	6,136	6,252
Valuation allowance	**(5,389)**	(6,136)	(6,252)
Net deferred tax asset	**$ -**	$ -	$ -

The calculation of tax assets and liabilities involves various management estimates and assumptions as to the future taxable earnings. At December 31, 2023, non-patronage income is expected to be less than 5 percent of total taxable income (before patronage), and all patronage income is expected to be disbursed over time. The expected future tax rates are based upon enacted tax laws.

The association recorded valuation allowances of $5,389, $6,136 and $6,252 during 2023, 2022 and 2021, respectively. The association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly. The association follows FASB guidance on accounting for uncertainty in income taxes. At December 31, 2023, 2022 and 2021, the association did not recognize a tax liability for any uncertain tax positions.

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 contribution plan (DC plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) plan. Also, the association sponsors a nonqualified defined contribution 401(k) plan. These plans are described more fully in section I of Note 2, "Summary of Significant Accounting Policies." The structure of the district's DB plan is characterized as multiemployer, 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 members of senior management or highly compensated employees in the association are eligible to participate in a separate nonqualified supplemental 401(k) plan, named the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (Supplemental 401(k) Plan). The Supplemental 401(k) plan allows district employers to elect to participate in any or all 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 Supplemental 401(k) Plan and provided for elective deferrals and discretionary contributions to be made through the plan. The total expenses of the nonqualified plan included in the association's employee benefit costs were $240, $144 and $617 for the years ended December 31, 2023, 2022 and 2021, respectively.

Plan Name	**Farm Credit Benefits Alliance Nonqualifed Supplemental 401(k) Plan**
Present Value of accumulated benefits	**$8,462**
Contributions made during the year	**$240**
Distributions made during the year	**--**
Funded obligations	**$8,462**
Off-balance-sheet amounts including benefits earned but not vested	**None**

The DB plan is noncontributory, and benefits are based on salary and years of service. The legal name of the plan is the 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 the percentage approved by the plan sponsor. The plan sponsor is the board of directors 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 obligations exceeded the net assets of the DB plan as of December 31, 2023.

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

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

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

	2023	2022	2021
Funded status of plan	**73.3%**	70.9%	70.5%
Association's contribution	**$ 961**	$ 3,083	$ 4,376
Percentage of association's contribution to total	**25.9%**	29.6%	28.9%

The funded status presented above is based on the percentage of plan assets to projected benefit obligations. DB plan funding is based on the percentage of plan assets to the accumulated benefit obligation, which was 74.1 percent, 71.8 percent and 72.0 percent at December 31, 2023, 2022 and 2021, respectively.

Other Postretirement Benefits: In addition to pension benefits, the association provides certain health care benefits to qualifying retired employees (other postretirement benefits) for those employees hired on or before December 31, 2003. These benefits are not characterized as multiemployer and, consequently, the liability for these benefits is included in the liability section of the association's consolidated balance sheet. Association employees hired after January 1, 2004, will be eligible for retiree medical benefits for themselves and their spouses but will be responsible for 100 percent of the related premiums.

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

Retiree Welfare Benefit Plans

	2023	2022	2021
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	**$ 21,420**	$ 27,286	$ 27,472
Service cost	**233**	358	382
Interest cost	**1,089**	846	757
Plan participants' contributions	**215**	226	185
Plan amendments	**-**	-	-
Actuarial loss (gain)	**49**	(6,219)	(555)
Benefits paid	**(1,081)**	(1,077)	(955)
Accumulated postretirement benefit obligation, end of year	**$ 21,925**	$ 21,420	$ 27,286
Change in Plan Assets			
Association contributions	**$ 866**	$ 851	$ 770
Plan participants' contributions	**215**	226	185
Benefits paid	**(1,081)**	(1,077)	(955)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Funded status of the plan	**$ (21,925)**	$ (21,420)	$ (27,286)
Amounts Recognized in Consolidated Balance Sheet			
Current liabilities	**$ (953)**	$ (958)	$ (944)
Noncurrent liabilities	**(20,972)**	(20,462)	(26,342)
Total	**$ (21,925)**	$ (21,420)	$ (27,286)
Amounts Recognized in Accumulated Other Comprehensive Income (AOCI)			
Net actuarial (gain)/loss	**$ (2,713)**	$ (2,871)	$ 3,461
Prior service credit	**(138)**	(322)	(504)
Total	**$ (2,851)**	$ (3,193)	$ 2,957
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	**12/31/2023**	12/31/2022	12/31/2021
Discount rate	**5.50%**	5.20%	3.15%
Health care cost trend rate assumed for next year (pre-/post-65)	**7.50%/8.40%**	7.20%/7.70%	6.80%/6.00%
Ultimate health care cost trend rate	**4.50%**	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	**2034/2034**	2031/2031	2030/2030

Disclosure Information Related to Retirement Benefits	**2023**	2022	2021
Components of Net Postretirement Benefit Cost			
Service Cost	**$ 233**	$ 358	$ 382
Interest cost	**1,089**	846	757
Amortization of:			
Prior service credit	**(183)**	(183)	(183)
Actuarial (gain)/loss	**(110)**	114	228
Net postretirement benefit cost	**$ 1,029**	$ 1,135	$ 1,184
Other Changes in Plan Assets and Benefit Obligation Recognized in Other Comprehensive Income			
Net actuarial loss/(gain)	**$ 49**	$ (6,219)	$ (555)
Amortization of:			
Prior service credit	**183**	183	183
Net actuarial gain/(loss)	**110**	(114)	(228)
Total recognized in other comprehensive loss (income)	**$ 342**	$ (6,150)	$ (600)
AOCI Amounts Expected to be Amortized into Expense			
Prior service credit	**$ (138)**	$ (183)	$ (183)
Net actuarial (gain)/loss	**(83)**	(110)	114
Total	**$ (221)**	$ (293)	$ (69)
Weighted-Average Assumptions Used to Determine Net Postretirement Benefit Cost			
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)	**7.20%/7.70%**	6.80%/6.00%	6.60/6.20%
Ultimate health care cost trend rate	**4.50%**	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	**2031**	2030	2029

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)	
Fiscal 2024	**$ 953**
Fiscal 2025	**986**
Fiscal 2026	**1,092**
Fiscal 2027	**1,173**
Fiscal 2028	**1,243**
Fiscal 2029 to 2033	**7,111**
Expected Contributions	
Fiscal 2024	**$ 953**

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 for the association amounted to $84,910, $66,560 and $23,348 at December 31, 2023, 2022 and 2021, respectively. During 2023, 2022 and 2021, $186,679, $237,464 and $24,611 of new loans were made and repayments totaled $168,329, $194,252 and $25,721, respectively. These balances do not include sold loans. In the opinion of management, no such loans outstanding at December 31, 2023, 2022 and 2021, involved more than a normal risk of collection.

Expenses included in purchased services and data processing 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 $3,012, $2,331 and $2,063 in 2023, 2022 and 2021, respectively.

The association received patronage income from the bank totaling $38,550, $71,109 and $59,185 during 2023, 2022 and 2021, 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 measured at fair value on a recurring basis, which are measured at fair value at the end of each reporting period on the association's consolidated balance sheet, at December 31, 2023, 2022 and 2021 for each of the fair value hierarchy values are summarized below. The association did not have any liabilities measured at fair value on a recurring basis.

December 31, 2023	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Assets held in nonqualified benefit trusts	**$ 8,462**	**$ -**	**$ -**	**$ 8,462**
Total assets	**$ 8,462**	**$ -**	**$ -**	**$ 8,462**

December 31, 2022	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 8,339	$ -	$ -	$ 8,339
Total assets	$ 8,339	$ -	$ -	$ 8,339

December 31, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 11,121	$ -	$ -	$ 11,121
Total assets	$ 11,121	$ -	$ -	$ 11,121

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

December 31, 2023	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans*	**$ -**	**$ -**	**$ 8,911**	**$ 8,911**
Other property owned	**-**	**-**	**33,902**	**33,902**

December 31, 2022	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$ 19,424	$ 19,424
Other property owned	-	-	3,358	3,358

December 31, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$ 12,777	$ 12,777
Other property owned	-	-	1,704	1,704

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

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

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, 2023				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:					
Cash	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Mission-related and other investments held-to-maturity	**1,027**	**-**	**-**	**992**	**992**
Net loans	**12,082,884**	**-**	**-**	**11,466,239**	**11,466,239**
Total Assets	**$ 12,083,911**	**$ -**	**$ -**	**$ 11,467,231**	**$ 11,467,231**
Liabilities:					
Note payable to the Bank	**10,524,700**	**-**	**-**	**9,988,759**	**9,988,759**
Total Liabilities	**$ 10,524,700**	**$ -**	**$ -**	**$ 9,988,759**	**$ 9,988,759**

	December 31, 2022				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ -	$ -	$ -	$ -	$ -
Mission-related and other investments held-to-maturity	1,496	-	-	1,427	1,427
Net loans	11,447,015	-	-	10,616,129	10,616,129
Total Assets	$ 11,448,511	$ -	$ -	$ 10,617,556	$ 10,617,556
Liabilities:					
Note payable to the Bank	9,840,475	-	-	9,127,431	9,127,431
Total Liabilities	$ 9,840,475	$ -	$ -	$ 9,127,431	$ 9,127,431

	December 31, 2021				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ -	$ -	$ -	$ -	$ -
Mission-related and other investments held-to-maturity	1,952	-	-	2,001	2,001
Net loans	10,420,738	-	-	10,451,092	10,451,092
Total Assets	$ 10,422,690	$ -	$ -	$ 10,453,093	$ 10,453,093
Liabilities:					
Note payable to the Bank	8,873,812	-	-	8,899,615	8,899,615
Total Liabilities	$ 8,873,812	$ -	$ -	$ 8,899,615	$ 8,899,615

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:

	Valuation Technique(s)	Input
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
Other interest bearing liabilities	Carrying value	Par/principal and appropriate interest yield
Other property owned	Carrying value	Each collateral property is unique

Information About Level 3 Fair Value Measurements

	Valuation Technique(s)	Unobservable Input	Range of Inputs
Investments held-to-maturity	Discounted cash flow	Prepayment rates	0.0% - 23.1%

A. Cash:

For cash, the carrying amount is a reasonable estimate of fair value. The fair value of term federal funds sold and securities purchased under resale agreements is based on currently quoted market prices, which are reflective of current interest rates.

B. Investment Securities:

Include mortgage-backed securities issued by the Federal Agricultural Mortgage Corporation (Farmer Mac). Fair values are estimated using discounted cash flows considering market interest rates, estimated prepayment rates, probabilities of default and loss severities. Inputs depend significantly on management judgments and experience with the securities. These fair value measurements are classified as Level 3 investments.

C. 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.

D. Assets Held in Nonqualified Benefits Trusts:

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

E. 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.

F. 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.

G. Note Payable to the Bank:

The note payable to the bank is not regularly traded; thus, quoted market prices are not available. Fair value of this instrument is discounted based on the association's and bank's loan rates as well as on management estimates. For the purposes of this estimate it is assumed that the cash flow on the note is equal to the principal payments on the association's loan receivables plus accrued interest on the note payable. This assumption implies that earnings on the association's interest margin are used to fund operating expenses and capital expenditures. Management has no basis to determine whether the fair values would be indicative of the value negotiated in an actual sale.

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 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 by the borrower. At December 31, 2023, the association had $1,974,526 of commitments to extend credit, and $35,969 of letters of credit 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 balance sheet until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts equal 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 are as follows:

	2023				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 85,463**	**$ 86,151**	**$ 87,958**	**$ 89,122**	**$ 348,694**
Reversal of (provision for) loan losses	**(3,104)**	**(2,766)**	**(3,248)**	**600**	**(8,518)**
Noninterest expense, net	**(5,852)**	**(11,527)**	**(29,229)**	**(23,252)**	**(69,860)**
Net income	**$ 76,507**	**$ 71,858**	**$ 55,481**	**$ 66,470**	**$ 270,316**

	2022				
	First	Second	Third	Fourth	Total
Net interest income	$ 77,704	$ 79,054	$ 82,009	$ 84,032	$ 322,799
Reversal of (provision for) loan losses	1,836	(948)	(4,017)	4,132	1,003
Noninterest expense, net	(9,304)	(8,978)	(10,186)	(9,025)	(37,493)
Net income	$ 70,236	$ 69,128	$ 67,806	$ 79,139	$ 286,309

	2021				
	First	Second	Third	Fourth	Total
Net interest income	$ 66,344	$ 68,598	$ 71,328	$ 74,130	$ 280,400
(Provision for) reversal of loan losses	4,894	3,011	138	1,155	9,198
Noninterest expense, net	(3,431)	(8,773)	(8,954)	(6,727)	(27,885)
Net income	$ 67,807	$ 62,836	$ 62,512	$ 68,558	$ 261,713

NOTE 18 – SUBSEQUENT EVENTS:

On February 26, 2024, several fires ignited across the Texas panhandle. As of the date of the report, the association has not sustained any damages to any of its assets or real estate. The association is currently engaged in reaching out to borrowers who operate or reside in the area to determine any potential impacts.

The association has evaluated subsequent events through March 8, 2024, 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 to 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 or interest rates to borrowers, patronage or dividends and acquisitions or dispositions of material assets, if any, required to be disclosed in this section are incorporated herein by reference to “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in this annual report.

DESCRIPTION OF PROPERTY

Capital Farm Credit, ACA (the association) serves its 192-county territory through its main administrative office at 3000 Briarcrest Drive, Suite 601, Bryan, Texas, and through its accounting/administration, agri-insurance, loan processing/review, special assets and marketing/operations offices, which are in Amarillo, Bryan, Devine, Hondo, Lubbock, and Round Rock, Texas. Additionally, there are 62 lending offices located throughout the territory. The association owns the office buildings in Alpine, Bellville, Bowie, Canadian, Childress, Clifton, College Station, Dalhart, Dayton, Dimmitt, Edna, El Campo, Goldthwaite, Hereford, Hondo, Jourdanton, Kenedy, Kerrville, La Grange, Lamesa, Levelland, Littlefield, Lockhart, Lubbock, Madisonville, Mason, Matador, Muleshoe, Pampa, Perryton, Rosenberg, San Saba, Snyder, Spur, Taylor, Temple, Uvalde, Vernon, and Wichita Falls, free of debt. The association leases office buildings in Abilene, Amarillo, Austin, Bay City, Brenham, Bryan, Burnet, Conroe, Crockett, Devine, Edinburg, El Paso, Fredericksburg, Harlingen, Haskell, Hondo, Katy, La Grange, Laredo, Livingston, Lubbock, New Braunfels, Robstown, Round Rock, San Angelo, San Antonio, Seminole, Victoria, Waco and Winnie, Texas.

In 2023, the association purchased a building in College Station, Texas, which will serve as the association’s headquarters beginning in 2024. Brand-new leases were entered into for Haskell and San Antonio. The association renewed leases in Hondo, Livingston, Winnie, San Angelo, Austin, San Antonio, Waco, Edinburg, Harlingen, Brenham and Devine. The association closed the Stamford and Munday offices and consolidated them into the Haskell location.

In 2022, the association sold buildings in Tulia and in Stamford. New leases were entered into for office locations in New Braunfels, Seminole, Katy, Amarillo and Stamford. The association renewed leases in Alpine, Winnie, La Grange, Laredo, Conroe, Katy, Burnet, Abilene and Fredericksburg. During 2022, the association closed the Crosbyton, Goldthwaite, Sonora and Wheeler offices and consolidated them into Lubbock, San Saba, San Angelo and Pampa, respectively.

In 2021, the association sold its buildings in San Angelo and Waco and entered into new leases for both locations. Additionally, new leases were entered into for new office locations in Brenham and Victoria, and the association entered a new lease in Hondo. The association renewed leases in Abilene, Austin, Burnet, Bay City, Devine, New Braunfels, La Grange, Lubbock, Winnie and Seminole.

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 association.

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference to 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 to the consolidated financial statements, “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 bank's annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720-2590 or calling (512) 465-1881. Copies of the bank's annual and quarterly stockholder reports can also be requested by emailing *fcb@farmcreditbank.com*. The annual and quarterly stockholder reports are also available on the bank's 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 Capital Farm Credit, P.O. Box 488, Hondo, Texas 78861 or calling (830) 426-4589. Copies of the association's quarterly stockholder reports can also be requested by emailing *Javier.Lemus@capitalfarmcredit.com*. The association's annual stockholder report is available on its website at *www.capitalfarmcredit.com* 75 days after the year end. Copies of the association's annual stockholder report can also be requested 90 days after the year end.

SELECTED FINANCIAL DATA

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

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

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

DIRECTORS AND SENIOR OFFICERS

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

NAME	POSITION	ELECTED/ TIME IN POSITION	TERM EXPIRES
John Malazzo	Chairman & Stockholder-Elected Director	2007	2027
Kenton B. Kimball	Vice-Chairman and Stockholder-Elected Director	2000	2027
Paul Aelvoet	Stockholder-Elected Director	2000	2026
Jim Brock	Director-Elected Director	2022	2026
Kenny Brown	Stockholder-Elected Director	2021	2025
Dale Crenwelge	Stockholder-Elected Director	2008	2025
Rachel Cutrer	Stockholder-Elected Director	2022	2026
Josh Eilers	Stockholder-Elected Director	2021	2025
Shelley Heinrich	Stockholder-Elected Director	2023	2027
Dale Hoelscher*	Stockholder-Elected Director	2009	2023
Jerred Hurst	Director-Elected Director	2018	2026
Terry McAlister	Stockholder-Elected Director	1992	2026
Josh McDonald	Stockholder-Elected Director	2022	2026
Lance D. Morris*	Stockholder-Elected Director	1988	2023
Gary L. Palousek	Stockholder-Elected Director	2003	2027
Danny Parker	Stockholder-Elected Director	1998	2025
Ronnie Riddle	Stockholder-Elected Director	2012	2024
Shane Sklar	Stockholder-Elected Director	2020	2024
Sharleen Walkoviak	Director-Elected Director	2018	2026
Lowell Woodward	Stockholder-Elected Director	2005	2026
Joe David Yates	Stockholder-Elected Director	2023	2027
Jeff Norte	President & Chief Executive Officer	2021	----
Chris Burt	Chief Human Resources Officer	2021	----
Jon Hutchinson	Chief Credit Officer	2021	----
Sally Lawson	Chief Financial Officer	2021	----
Phil Peabody	Chief Lending Officer	2021	----
Jennifer Thompson	Chief Administrative Officer	2022	----
Glenn Trant	Chief Operating Officer	2021	----
Wes Sutton	General Counsel	2018	----

Director-Elected Director: a director-appointed director who is not a stockholder, director, officer, employee or agent of a Farm Credit System institution (other than as an outside director of the association or its subsidiaries).
*Denotes board members who served during 2023 but will not continue in 2024

A brief statement of the business and employment background of each director and senior officer as of December 31, 2023, is provided for informational purposes.

John Malazzo raises cotton and corn and has an F-1 heifer production operation in Brazos, Milam and Burleson counties, Texas. Mr. Malazzo resides in the Brazos River bottom near Caldwell, Texas. Mr. Malazzo also serves on the board of Producers Co-op of Bryan, Texas, which provides agricultural goods and services to farmers and ranchers.

Kenton B. Kimball farms and ranches in Stratford, Texas. Mr. Kimball is the owner and president of Kimball Cattle Inc., a farming and cattle business. Mr. Kimball has also owned and managed agricultural operations in Sherman County, Texas, in the past.

Paul Aelvoet is a self-employed farmer/rancher in Medina County, Texas, and resides in Hondo, Texas. He is managing partner of Aelvoet Partners and of D/A Cattle Co., which are farming and ranching operations. Mr. Aelvoet serves as co-chairman of the Hondo 4H Booster Club.

Jim Brock has extensive experience serving as a board member for many organizations throughout his career. Mr. Brock currently serves as the founding managing member of TBR Advisors, LLC in Houston, Texas, a business advisory services company that provides support and advice for organizations facing operation and financial challenges.

Kenny Brown has completed a career that has spanned 32 years in the Farm Credit System and retired from Capital Farm Credit in March of 2018. During these 32 years, he served as an examiner with the Farm Credit Administration, a lending officer with Heritage Land Bank in Tyler, Texas, and spent 17 years prior to retirement with Capital Farm Credit. Mr. Brown maintains a cattle operation in western Coryell County. He has served as a consultant with multiple Farm Credit institutions in Texas and New Mexico since retirement. He is a member of the Coryell County Farm Bureau.

Dale Crenwelge resides in Comfort, Kerr County, Texas, and his principal occupation is ranching and real estate investment and development. Mr. Crenwelge's business interests include serving as president or general partner of Crenwelge Commercial Consultants Inc., Crenwelge LLC, Grobe-Lich Properties LTD, GrobeLich Properties LLC, DKBC I LTD, Pine Ridge Developers LLC, Austin Mini Storage, Inc., D and D Terrell County Ranch Partnership, Cactus Ridge, LLC, LaSoto Business Park, Paul Bee Holdings, LLC, L1 Finance Company, and Arch Ray and River, LLC.. Mr. Crenwelge serves on the board of Methodist Hill Country Memorial Hospital in Fredericksburg, Texas, Kerr County 4-H Foundation, Centurions of Kendall County, Schreiner University Ag Advisory Committee, Kerr County Appraisal District Ag Advisory Committee, and Gillepsie County MUD #1.

Rachel Cutrer is a seventh-generation Texas rancher and businesswoman from Wharton County. In 1999, she created Ranch House Designs, the world leader in livestock marketing, and has served as CEO since its inception. Cutrer is also co-owner of B.R. Cutrer Ranch, one of the world's leading Brahman cattle operations, and a founder and partner of Brahman Country Beef, Brahman Country Genetics, FitBeef, and The Ranch Downtown.

Josh Eilers is a former United States Army Ranger and has been the owner and operator of Ranger Cattle for the past 10 years. After being awarded a Purple Heart for wounds sustained in combat, Mr. Eilers transitioned from the military to agriculture. Mr. Eilers' livestock production consists of raising high-quality Wagyu beef in Travis County, Texas, from conception to consumption and managing a co-op network of calf producers from the panhandle of Texas across the southeast United States.

Shelley Heinrich resides in Lubbock County, Texas, where she manages the financial responsibilities and daily operations related to her family's row crop and cow/calf operation in Lubbock, Lynn, and Motley counties. Heinrich owns and operates Kitalou, LLC and is a partner in 41 Farms, LLC and 1986 Farms, LLC. She is employed by the Cotton Board as the Southern Plains Regional Communications Director.

Dale Hoelscher farms and ranches in Bell, Falls, Milam, and Robertson counties, and resides in Bell County, Texas. He primarily grows corn and cotton and also has a cow/calf operation. Mr. Hoelscher's business interests include Hoelscher Brothers Farm and R&D Hoelscher Farm LLC, a farming and ranching operation. His other business interests include D&M Grain, Producers Co-op, and B.F. & M. Co-op.

Jerred Hurst resides in Lubbock, Lubbock County, Texas, and is the chief executive officer and owner of Primitive, a digital agency specializing in web design and development, branding, inbound marketing and social media. He has over 20 years of web and software expertise in various industries.

Terry McAlister resides in Electra, Texas, and farms and ranches in Wichita and Wilbarger counties. Mr. McAlister is president and CEO of McAlister Properties Inc. He serves as an appointed representative of the Wichita County Boll Weevil Eradication Foundation.

Josh McDonald started his farming business at age 15, renting a farm to grow crops and stocker cattle. He is now a partner and CFO at Blue Sky Farms, a family-owned, multi-state dairy and farming operation based in Friona, Texas. Blue Sky Farms operations consist of dairy, alfalfa, cotton, and grain farming throughout the panhandle, south plains, and central areas of Texas. Mr. McDonald's other business interest include Sea Scrolls, a multi-state real estate investment and development company, BSFM, a management and financial firm serving a variety of businesses and Water & More, an irrigation retail business. Mr. McDonald serves as vice president of Created with a Purpose of West Texas, a pregnancy center supporting women and men in need and is the founding president of the Farwell Economic Development Corporation.

Lance D. Morris farms cotton, wheat and milo in Crosby, Dickens and Floyd counties and resides in Crosbyton, Texas. He owns Morris Farms, which is a farming and ranching operation. Mr. Morris is on the board of directors of the Associated Cotton Growers and White River Municipal Water District.

Gary L. Palousek is a self-employed farmer raising cotton, milo and corn in Willacy County, Texas, and operates his businesses individually and as a partner of Las Dos Palmas Farms. Mr. Palousek resides and maintains an office in Raymondville, Texas. He is director and secretary-treasurer of the Willacy County Drainage District No. 2 and is committeeman of Willacy County Farm Service Agency.

Danny Parker is engaged in row crop farming and a cow/calf operation in Uvalde County and conducts his business as Danny Parker Farms. Mr. Parker resides in Uvalde, Texas, and serves as an executive director of the Gulf Compress in Corpus Christi, Texas, a cotton compress and warehouse co-op. Mr. Parker is vice chairman of the Uvalde County Livestock Show Steer Committee. He also serves on the Uvalde County AgriLife Agriculture Committee.

Ronnie Riddle is owner and operator of Riddle Farms, a farming and ranching operation headquartered in Jones County, Texas, near Hamlin. He resides in Abilene, Texas, and farms in Fisher, Stonewall, Jones and Haskell counties. Mr. Riddle is a board member of the Texas Trail Council of the Boy Scouts of America.

Shane Sklar is a fourth-generation farmer and rancher from Edna, Texas. He is the owner of El Toro Farms, which specializes in cotton and corn production. He is also an owner in Sklar & Son Cattle, a cow-calf operation with cattle in Jackson and Bee counties. Mr. Sklar is an owner of and runs Sklar Seed, a grain sorghum, soybean and corn seed sales company that markets the LG Seeds brand.

Sharleen Walkoviak resides in Houston, Texas, and is a co-owner of Covenant Technology Services LLC, which provides outsourced IT and consulting services and is based in Houston, Harris County, Texas. She is a member of the board of directors of the Houston Livestock Show and Rodeo. Other roles and responsibilities include serving as director and treasurer of Amigas Para Niños, member of the Vision Board of the Normal Borlaug Youth in Agriculture Program and membership chairman of the Advisory Council of The Bush School of Government and Public Service at Texas A&M.

Lowell Woodward ranches in Pecos, Crockett, Brewster and Upton counties, and resides in Pecos County, Texas. Mr. Woodward raises sheep, goats, cattle and horses, and has a hunting operation. He is a director of the Texas Sheep and Goat Raisers Association and an owner of Woodward Inc., an apartment complex.

Joe David Yates resides in Mason, Texas, and ranches in Texas and New Mexico. Mr. Yates sells ranch real estate in Texas, New Mexico and Oklahoma, with an office in Mason, Texas. He is the owner and president of Joe David Yates Inc.; is part owner of Bay City Feeds, a feed operation in Bay City, Texas; and is the vice president/secretary of Stewart Ranch with operations in Texas and New Mexico. Additionally, he has an ownership interest in a title company in Mason, Texas.

Jeff Norte serves as the association's president and chief executive officer. Mr. Norte has been with the association since September 2010. Prior to joining the association, he served in various credit and risk positions, including overseeing credit for CoBank's corporate and international portfolio, as well as several years as a regulator in Kansas City with the FDIC. He is a veteran of the military, serving with the U.S. Army. Mr. Norte is a certified public accountant and received his MBA from Concordia University Texas.

Chris Burt serves as the association's chief human resources officer. Mr. Burt joined the association in 2021. Prior to joining the association, he served as the executive vice president, chief employee experience officer for GM Financial in Fort Worth, Texas. He is a certified senior professional in human resources (SPHR). Mr. Burt received his undergraduate degree in psychology from Auburn University and his Master of Business Administration from the University of Texas at Arlington.

Jon Hutchinson serves as the association's chief credit officer. He joined the association in 2010 as a senior credit officer and has held a variety of credit leadership positions, most recently senior vice president and director of commercial credit. Prior to joining the association, Mr. Hutchinson served in credit leadership positions with John Deere Credit and as an examiner with the Farm Credit Administration. He has a Bachelor of Science in agricultural business from Colorado State University, and a Master of Science in business administration from Iowa State University.

Sally Lawson serves as the association's chief financial officer. Mrs. Lawson joined Capital Farm Credit in 2004 and has more than 30 years of financial and accounting experience. She has held various roles in the finance department, most recently as the vice president of finance. Mrs. Lawson has a bachelor's degree in finance from Texas Tech University, and an advanced degree from the American Bankers Association Stonier Graduate School of Banking, in partnership with University of Pennsylvania's Wharton School of Business. In addition, she holds a certificate of leadership from the Wharton School of Business.

Phil Peabody serves as the association's chief lending officer. Mr. Peabody has been with the association since 2004. He has served in various roles in the association, most recently leading the enterprise risk management function as chief risk officer. Prior to that, he served as a branch manager and loan officer in West Texas. Mr. Peabody has bachelor's and master's degrees in agricultural and applied economics from Texas Tech University.

Jennifer Thompson serves as the association's chief administrative officer. Ms. Thompson joined Capital Farm Credit in 2013 where she has served within the internal credit review team before managing association efforts around compliance and procedures as senior vice president of compliance. Prior to joining the association, Ms. Thompson was a commissioned examiner with the Farm Credit Administration. Ms. Thompson has a Bachelor of Business Administration in finance from Texas A&M University.

Glenn Trant serves as the association's chief operating officer. Mr. Trant joined Capital Farm Credit in 2008 after a merger with First Ag Credit and has more than 30 years of Farm Credit experience. Mr. Trant previously served as interim chief lending officer; senior vice president, lending and relationship management; as well as regional president. He has a Bachelor of Science in agricultural economics and an MBA in finance and accounting from Texas A&M University.

Wes Sutton serves as the association's general counsel and manages the legal department. Mr. Sutton earned his undergraduate degree from Erskine College and his Juris Doctorate from the University of South Carolina School of Law and is a member of the South Carolina Bar and the State Bar of Texas. Prior to his employment with the association, he was general counsel and executive vice president with AgSouth Farm Credit. He has also held several positions in the legal department at AgFirst Farm Credit Bank and has over 20 years of service with the Farm Credit System.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

During 2023, directors were compensated for their service to the association in the form of an honorarium of $7,000 per quarter, $600 per day for each meeting attended, $200 per meeting for conference calls and $500 for travel days when required. Committee chairperson receives an additional $200 per meeting for committee meetings. The board chairperson and vice chairperson were compensated $800 per meeting for each board meeting attended, and directors were also reimbursed for certain expenses incurred while representing the association in an official capacity. Mileage for attending official meetings during 2023 was paid at the IRS-approved rate of 65.5 cents per mile. A copy of the travel policy is available to stockholders of the association upon request.

Director	Board Meetings	Other Official Activities	Total Compensation in 2023
Paul Aelvoet	14	13	$ 49,800
James Brock	15	20	49,900
Kenny Brown	15	16	52,200
Dale Crenwelge	15	23	54,400
Rachel Ann Cutrer	13	4	39,700
Josh Eilers	14	11	49,900
Shelley Heinrich	4	3	13,133
Dale Hoelscher	9	6	28,766
Jerred Hurst	12	3	39,400
Kenton B. Kimball	15	29	62,200
John Malazzo	15	17	54,500
Terry McAlister	15	13	44,800
Josh McDonald	15	11	49,300
Lance Morris	11	6	31,666
Gary L. Palousek	15	11	54,400
Danny Parker	14	12	50,000
Ronnie Riddle	15	7	45,700
Shane Sklar	13	11	44,800
Sharleen Walkoviak	15	23	53,400
Lowell Woodward	14	11	48,300
Joe David Yates	4	2	13,133
			$ 929,398

There were seven board meetings during 2023. The aggregate compensation paid to directors in 2023, 2022 and 2021 was $929,398, $718,600 and $646,500, respectively.

Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows:

	Committee				
Director	Audit	Compensation	Governance	Other*	Total
Paul Aelvoet	$ -	$ -	$ 4,000	$ 8,000	$ 12,000
James Brock	3,600	-	-	9,400	13,000
Kenny Brown	-	-	3,000	9,800	12,800
Dale Crenwelge	2,400	-	-	12,600	15,000
Rachel Ann Cutrer	-	600	1,800	2,600	5,000
Josh Eilers	-	-	3,000	6,200	9,200
Shelley Heinrich	-	-	600	1,200	1,800
Dale Hoelscher	-	800	-	4,200	5,000
Jerred Hurst	-	-	1,200	3,200	4,400
Kenton B. Kimball	2,400	1,800	600	13,200	18,000
John Malazzo	1,200	1,800	1,200	8,800	13,000
Terry McAlister	3,600	-	-	5,800	9,400
Josh McDonald	-	3,200	-	5,200	8,400
Lance Morris	-	600	-	4,000	4,600
Gary L. Palousek	-	2,800	-	6,200	9,000
Danny Parker	-	3,000	-	5,800	8,800
Ronnie Riddle	3,600	-	-	2,200	5,800
Shane Sklar	-	-	1,800	6,800	8,600
Sharleen Walkoviak	4,800	-	-	11,200	16,000
Lowell Woodward	-	3,000	-	5,600	8,600
Joe David Yates	-	-	-	1,800	1,800
	$ 21,600	$ 17,600	$ 17,200	$ 133,800	$ 190,200

*Other includes the following meetings that were held: credit, compensation training, director development, national director conference, new director orientation, Texas District Conference, Director Advancement Program (DAP), Director Leadership, Risk, Farm Credit Council and FCBT stockholder, Audit Summit, Risk 360, compliance and audit conference.

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $354,447, $376,503 and $252,623, in 2023, 2022 and 2021, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Senior Officers

A critical factor to the association's success is its ability to attract, develop and retain staff who are knowledgeable and efficient in their ability to support the association in the execution of its strategic objectives and delivery of association results that maximize the value received by its membership. The association operates utilizing a compensation program that focuses on the performance and contributions of its employees in achieving the association's financial and operational objectives, all for the ultimate benefit of its membership. The association's board of directors, based on recommendations of its Compensation Committee, establishes the salary and approves the incentive programs utilizing data derived from independent third-party compensation specialists in the financial services sector to ensure incentive structures are in line with market-comparable positions. Studies provided by third-party compensation specialists form the foundation for evaluation and establishment of salary and incentive plans used by the association.

Chief Executive Officer (CEO) Compensation Table and Policy

CEO Compensation

Name of Individual	Year	Salary (a)	Long-Term Incentives (b)	Current Year Incentives (c)	Other (d)	Change in Pension Value (e)	Total*
Jeff Norte, CEO	**2023**	**$ 644,521**	**$ 98,603**	**$ 555,210**	**$ 66,142**	**$ -**	**$ 1,364,476**
Jeff Norte, CEO	2022	578,256	83,115	254,350	53,755	-	969,476
Jeff Norte, CEO	2021	487,534	95,653	145,489	29,697	-	758,373
Ben R. Novosad, CEO	2021	633,359	374,838	471,028	268,175	-	1,747,400

(a) Gross salary
(b) Cash payout of long-term incentives
(c) Cash payout of annual incentives
(d) Includes contributions to 401(k) and defined contribution plans, automobile benefits, discretionary bonuses, annual leave payout, premiums paid for life insurance and other taxable fringe items of minimal value.
(e) Change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the prior fiscal year to the current fiscal year.

Refer to Note 13 – Employee Benefit Plans for detailed explanation on the increase to the retiree welfare plan's projected benefit obligation and corresponding impact to change in pension value.

*The table above does not include the estimated long-term incentive accruals of $865,970. For details regarding these accruals, see disclosure more fully discussed within the LTI section of this discussion and analysis.

Pension Benefits

During 2021, the previous CEO, Ben Novosad, retired from the association and there is no pension benefit information to report for 2021.

Compensation of Other Senior Officers

The following table summarizes the compensation paid to all senior officers, excluding the CEO, of the association during 2023, 2022 and 2021. Amounts reflected in the table are presented in the year the compensation was paid.

Name of Group	Year	Salary (a)	Long-Term Incentives (b)	Current Year Incentives (c)	Other (d)	Change in Pension Value (e)	Total*
Aggregate No. of Senior Officers in Year Excluding CEO							
7	**2023**	**$ 2,083,503**	**$ 288,070**	**$ 922,538**	**$ 297,768**	**$ -**	**$ 3,591,879**
7	2022	1,953,247	190,712	688,027	258,422	-	3,090,408
6	2021	1,476,733	99,969	450,386	248,363	-	2,275,451

(a) Gross salary
(b) Cash payout of long-term incentives
(c) Cash payout of annual incentives
(d) Includes contributions to 401(k) and defined contribution plans, automobile benefits, discretionary bonuses, annual leave payout, premiums paid for life insurance and other taxable fringe items of minimal value.
(e) Change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the prior fiscal year to the current fiscal year.

Refer to Note 13 – Employee Benefit Plans for detailed explanation on the increase to the retiree welfare plan's projected benefit obligation and corresponding impact to change in pension value.

*The table above does not include the estimated LTI incentive accruals of $1,952,548. For details regarding these accruals, see disclosure more fully discussed within the long-term incentives section of this discussion and analysis.

Disclosure of total compensation paid to any senior officer included in the summary compensation table above is available to our shareholders upon request.

Pension Benefits

During 2021, the previous senior officer who was a participant in the Farm Credit Bank of Texas Pension Plan retired from the association. No other officer included in the table above participates in the plan. Disclosure of information on the total compensation paid and the arrangement of the compensation plans during the last fiscal year to any senior officer or to any other officer included in the aggregate are available and will be disclosed to shareholders of the association upon request.

Additional Nonqualified Supplemental 401(k) Plan:

During 2023, the association continued to plan for succession for key members of senior management who are reaching retirement eligibility. In conjunction with this plan during 2018, the association entered into an agreement with one of its senior management team members that called for a one-time discretionary contribution into the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan ("the Plan"). The association evaluated the need to restore a portion of benefits lost as a result of the addition of a member to the association's senior management team, and as a result developed a plan to address this shortfall and funded this plan during 2018. Expenses of the plan relating to this agreement for 2023, 2022 and 2021 were $0, $0 and $0 respectively.

Incentive Plan for Officers and Employees:

The association utilizes two incentive plans: the annual (short-term) incentive plan (STI) based on individual and association performance that drives behavior that supports annual association goals, and the Long-Term Incentive plan (LTI), which was developed to reward key employees for achievement of the association's long-term goals and objectives. Both plans utilize parameters for measuring achievement at either threshold, target or superior performance levels. The LTI evaluates performance annually and is earned over a rolling three-year performance period.

Annual (Short-Term) Incentive Plan (STI)

The STI plan is a balanced scorecard plan that rewards employees for achieving desired business goal objectives for the year. The STI is an annual plan that is administered by the board.

At the beginning of each plan year, the board reviews and approves STI plan performance objectives for the association and the award matrix by which all incentives under the STI shall be calculated. Each STI plan participant is assigned an incentive award target calculated as a percentage of base pay that may be awarded if the association and participant achieve target performance goals. Failure to meet minimum thresholds for individual goals will result in no incentive, while achievement at superior levels for individual goals will result in the maximum incentive opportunity available at that salary grade for that goal. Potential individual award percentages vary based upon an employee's job grade level and are higher for those persons serving to direct performance of the association, which includes its senior lending staff and senior officers. Award payments vary depending upon the extent to which the association goals are achieved.

For calendar year 2023, the board approved the following goal performance measures, weightings and performance goals:

Performance Measures	Weight	Performance Goals Target	2023 Actual Performance	Performance Achievement
Acceptable credit quality as percentage of total loans	15%	96.00%	97.31%	Superior
Net charge-offs as percentage of average loans plus other property owned	10%	0.10%	0.02%	Superior
Nonearning assets as percentage of loans plus other property owned	15%	0.60%	0.50%	Superior
Return on equity results compared to System peer group	40%	3rd of System peers	1st	Superior
Loan Growth - Net change in 12 Month Avg of Managed Volume (recorded investment + participations sold plus syndicated loans agented for CFC Customers)	20%	8%	6.88%	Between Threshold & Target
Total	100%			

As part of this plan, the association has also established parameters for goal performance that define threshold and superior levels of incentive opportunities when more or less than the targeted goals are achieved. If less than the threshold level of performance is achieved for a particular performance measure, no incentives will be awarded for that performance measure. Financial results for 2023 resulted in the association's achievement of goal performance that overall achieves superior goals in four of the five measures. As a result, the board approved and the association accrued an estimated payment of $16,002,626 in STI incentives. As specified by the plan, these incentives are to be paid by March 15, 2024.

Long-Term Incentive Plan (LTI)

The purpose of the association's LTI is to offer a financial rewards package to key employees based on the long-term performance of the association. The board is the administrator of the LTI. The board has retained the authority to review and approve plan participants, the incentives prior to payment and the LTI metrics and goals as presented by the CEO and members of management. Any additions or deletions to the participant list must be submitted for board approval prior to the beginning of a performance period (the consecutive 36-month period beginning January 1 and ending December 31). Each participant is assigned an incentive award goal, calculated as a percentage of base salary at the beginning of the performance period at threshold, target and superior performance levels.

At the beginning of each calendar year, the board approves the LTI plan objectives for the association and the award formula or matrix by which all awards under this plan are based. Since its inception in 2011, the LTI plan established goals and metrics that management and the board felt were long term in nature and fostered the long-term health and viability of the association and its stockholders. These goals included loan volume growth, operating efficiency and capital distributions to the association's stockholders. The association's vision is to be the partner of choice for lending and related services in rural America through outstanding people, performance and member value. The board believes the goals established for the LTI support this vision.

For the LTI performance period 2023-2025, the board approved the following goal performance measures, weightings and performance goals, which are consistent with goals established for the LTI plan performance periods of 2021-2023 and 2022-2024.

	Performance Goals	
Performance Measures	**Target**	**Weight**
Capital distributions- Three-year average annual cash patronage plus allocated equity retirements in excess of certain % of average accrual loans	1.0%	33.3%
Loan Growth - Three Year Avg of Net Change in 12 Month Avg of Managed Volume (Recorded Investments + Participations Sold + Syndicated Loans Agented for CFC Customers)	8.0%	33.3%
Three-year average operating expenses as a percentage of net interest income plus other income	3rd of large system associations	33.4%

The actual/projected results for LTI performance and the estimated incentives based upon the performance for each of the three performance periods are as follows:

	Performance Level					
Plan Period	**Capital Distributions**	**Growth**	**Efficiency**	**CEO LTI**	**Senior Officer LTI**	**Other Officers LTI**
2021-2023 projected	Superior	Between Threshold & Target	Between Target & Superior	$ 93,839	$ 536,609	$ 543,459
2022-2024 projected	Superior	Superior	Between Target & Superior	371,250	736,033	1,211,475
2023-2025 projected	Superior	Between Threshold & Target	Target	400,881	675,509	952,193

Recognition Awards

At Capital Farm Credit we are committed to recognizing our employees with a variety of awards. We believe in recognition as a key element in building a healthy and productive work environment.

The Bravo! Award is a recognition that can be earned when any employee wants to quickly recognize a coworker or any employee across the association. This award consists of an electronic card with a link to select a gift of their choice through the Snappy website. Senior offices do not participate in this program.

The WOW! Award is a discretionary bonus program that is part of the Association's Compensation Administration Plan. This recognition program is designed as a tool to allow managers to provide monetary rewards to recognize outstanding employees' actions. This program allows for recognition of employees' service efforts as they go above and beyond in performance of their job responsibilities. Senior officers do not participate in this program.

Other

Employees who use their personal automobile for business purposes were reimbursed during 2023 at the IRS-approved rate of 65.5 cents per mile. Employees assigned an association automobile are required to maintain records of their business and personal use. This data is used to annually impute to the employee's taxable wages the personal use value of the automobile following the IRS lease value rules.

Neither the CEO nor any other senior officer received noncash compensation exceeding $5,000 in 2023, 2022 or 2021. Senior officers, including the CEO, are reimbursed for reasonable travel, subsistence and other related expenses while conducting association business. A copy of the association's travel policy is available to shareholders upon request.

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

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

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

During the past five years, none of the association's officers or directors have been involved in legal proceedings that are material to an evaluation of the ability or integrity of any person who served as director or senior officer at any time during the year just ended.

RELATIONSHIP WITH INDEPENDENT AUDITORS

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.

Fees for professional services paid by the association during 2023 to PricewaterhouseCoopers are as follows:

Service Category	Fees
Audit-related services	$ 169,729
Nonaudit services*	48,000
	$ 217,729

*Nonaudit services include fees related to the financial statement disclosure checklist, tax compliance services, and a transfer pricing analysis for income tax purposes, which were approved by the association's audit committee.

Fees paid in 2023 related to 2022 audit services were $21,229.
Fees paid in 2023 for professional services rendered in 2023 were $196,500.

RELATIONSHIP WITH UNINCORPORATED BUSINESS ENTITIES

The association and the bank made investments in a limited partnership, the Advantage Capital Ag Partners LP., that will provide junior capital to rural and agriculture businesses in the United States. This partnership is a Rural Business Investment Company (RBIC), and the investment by the association and the bank is allowed under the Mission-Related Investment authorities granted in the Farm Credit Act. The association's investment in RBIC was $12,581, $13,024 and $12,225 at December 31, 2023, 2022 and 2021, respectively. This investment is included on the consolidated balance sheets.

FINANCIAL STATEMENTS

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

MEMBER/SHAREHOLDER PRIVACY

Members' nonpublic personal financial information is protected by Farm Credit Administration regulation. The 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 (UNAUDITED)

The association has a policy to make a concerted effort to finance young, beginning or small farmers and ranchers, and producers or harvesters of aquatic products (YBS program). For purposes of the association's YBS program, young producers are defined as those age 35 or younger. Beginning producers are defined as producers with 10 years or less of experience at farming, ranching or producing or harvesting aquatic products. A small producer is defined as one who normally generates less than $250,000 in annual gross sales of agricultural or aquatic products. Using statistics obtained from a United States Department of Agriculture 2017 census and information from the association's loan accounting records as of June 30, 2023, the following table compares the percentage of YBS farmers in the association's territory (based on USDA data) with the percentage of YBS customers in the association's loan portfolio. Though the measurement (farmers) used in the USDA census information is not directly comparable to the measurement (customers) used by the association, the statistics presented herein serve as a quantitative measurement of the association's success in attracting and making loans to young, beginning and/or small farmers who live or have operations in the association's territory.

In the following table, 4.7 percent of the farmers in the association's territory are "Young" farmers while, 18.2 percent of our customers who live or operate in the association's territory meet the "Young" criterion. The same explanation applies to the Beginning and Small categories.

FARMERS, RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS CLASSIFIED AS:	FARMERS IN TERRITORY	ASSOCIATION CUSTOMERS
Young	4.7%	18.2%
Beginning	28.1%	69.8%

In the following table, 95.5 percent of the farms in the association's territory are "Small" farms, while 90.0 percent of our customers who live or operate in the association's territory are producers who normally generate less than $250,000 in annual gross sales of agricultural or aquatic products.

FARMERS, RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS CLASSIFIED AS:	FARMS IN TERRITORY	ASSOCIATION CUSTOMERS
Small	95.5%	90.0%

At December 31, 2023, the association had the following number of loans and volume outstanding in its YBS Program (loans may fit in one, two or all three categories):

YOUNG		BEGINNING		SMALL	
Number of Loans	Volume	Number of Loans	Volume	Number of Loans	Volume
5,087	$1,346,527	18,355	$5,877,825	23,420	$7,295,415

Capital Farm Credit has established a YBS department to provide and execute a strategic vision for CFC YBS programs. The association's YBS initiatives are branded under the name "AgriRoots". The three pillars of the CFC YBS AgriRoots strategy consist of: Education, Financial and Outreach.

Education-The association recognizes the need for supporting YBS borrowers with business and financial trainings to increase knowledge and success of operations. CFC hosts an annual AgriRoots Next Generation conference to support YBS borrowers with topics such as business and financial best practices, estate planning, marketing, global economic trends. The AgriRoots Next Generation conference provides optimal networking and peer to peer engagement.

CFC has launched the AgriRoots Emerging Leaders program. Offered across the state, these lender-led educational trainings provide YBS borrowers with basic skills necessary to grow their businesses. Emerging Leader educational topics include: Building Your Financial Team, Financial Documentation, Did you make a Profit?, Business and Personal Balance Sheets, Cash Flow Analysis, Business Planning and Goal Setting.

In addition, the association allocates funds each year to send YBS borrowers to educational conferences including, but not limited to: Texas Farm Bureau Young Farmer and Rancher Conferences, Women in Agribusiness annual conference, Texas A&M AgriLife Rancher's Leasing Workshop.

Financial- The association implemented a policy that permits the association to provide constructive credit to serve any financing need of YBS customers who are taking demonstrated steps to become more fully engaged as a full-time farmer or rancher. Also, the association has adopted underwriting standards that contain flexible criteria that permit the credit needs of customers to be met when the customer falls short of meeting an established standard but has one or more compensating strengths to offset the area of weakness. These flexible criteria, while still requiring reasonable and prudent underwriting standards, allow customers who engage in agriculture operations less than full time to have the capital resources they need to begin or grow their operations.

In addition, the association has implemented several specific loan programs to support YBS borrowers. The AgVista loan program is designed to serve beginning and underserved YBS borrowers who would benefit from educational training and mentorship. The CFC NextGen loan program is available to support YBS borrowers aiming to continue an existing operation or begin a new one with adequate training and mentorship to support their business success. The CFC AgStart loan program provides youth the opportunity to purchase a 4-H or FFA livestock project or a general purpose livestock loan.

Lastly, the association cooperates with government agencies to structure loans with third party guarantees when the applicant does not have sufficient equity or proven repayment sources to qualify for credit by themselves. These programs and efforts allow YBS customers to begin an agriculture operation, maintain their operation through stressful periods or make expansions in herd size, facilities or acreage.

Outreach -Attracting and retaining YBS customers is critical to the CFC mission. The association dedicates over $30,000 to support YBS borrowers through the GROW your AgriRoots producer grant program. YBS borrowers apply for grants and are selected based on several factors with an emphasis on business and financial acumen.

The employees of Capital Farm Credit are involved in working with youth livestock programs that have historically produced individuals who become farmers and ranchers in the future. Hundreds of hours are spent annually serving in various capacities that promote livestock shows and sales for youth across the state, and Capital Farm Credit spends over $1 million dollars annually sponsoring and contributing to these programs. These programs are spread across the state and include county, regional and statewide shows and involve both 4-H and FFA programs.

In addition, CFC sponsors and supports programs and organizations around the state that are targeted at young, beginning or small farmers or ranchers, some in cooperation with various county and statewide organizations but also with the Texas A&M AgriLife Extension Service.

The involvement and support of these programs also helps YBS farmers/ranchers become aware of Capital Farm Credit and understand how its loan programs and services can be of value to them as they improve or expand their current operations but also aids them in improving or expanding their operation regardless of whether they do business with Capital Farm Credit.

Developing quantitative standards that may be used to measure the number of YBS customers served as compared with the number in the CFC territory – In each year’s business plan, the board establishes YBS goals and develops quantitative standards to measure the level of success in achieving the established goals. The business plan also defines how and when the standards will be measured and assigns responsibility to an officer for monitoring, tracking and reporting the standards. The progress in achieving the goals is reported to the board of directors each quarter. Through this process, the board is able to evaluate if the programs implemented by management are successful in achieving the goals in the business plan and are successful in achieving compliance with the board’s policy direction to serve the needs of YBS customers.

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