CENTRAL TEXAS FARM CREDIT, ACA

2023
Quarterly Report
Third Quarter

For the Quarter Ended September 30, 2023

REPORT OF MANAGEMENT

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

Zach May, Chief Executive Officer
November 9, 2023

Robby A. Halfmann, Chairman, Board of Directors
November 9, 2023

Keith Prater, Chief Financial Officer
November 9, 2023

Third Quarter 2023 Financial Report

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

The following commentary reviews the financial performance of the Central Texas Farm Credit, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended September 30, 2023. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2022, Annual Report to Stockholders.

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

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

Significant Events

2023

In March 2023, a patronage refund of $8,300,000 was distributed to the Association's borrowers. The patronage refund was declared by the board of directors in December 2022, and the amount was based on the Association's 2022 operating results.

2022

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

In July 2022, Boyd J. Chambers, president and chief executive officer of the Association, informed the board of directors of his decision to retire in mid-2023. Upon his announcement, the board placed in motion a plan to identify and evaluate candidates, and appoint a new chief executive officer. In December 2022, Zach May was named chief executive officer effective July 1, 2023. Mr. May has 14 years of experience with the Association and has served as Chief Operating Officer since 2009.

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

2021

In December 2021, the Association received a direct loan patronage of $3,139,643 from the Bank, representing 63 basis points on the average daily balance of the Association's direct loan with the Bank. During, 2021, the Association received an additional $171,285 in patronage payment from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a capital markets patronage of $75,968 from the Bank, representing 76 basis points on the Association's average balance of participations in the Bank's patronage pool program.

In March 2021, a patronage refund of $7,241,217 was distributed to the Association's borrowers. The patronage refund was declared by the board of directors in December 2020, and the amount was based on the Association's 2020 operating results.

Territory Conditions:

The local economy in our chartered territory continued to remain relatively strong in the third quarter of 2023. Real estate values have stabilized with residential and land sales slowing some due to rising costs of construction and rapid increases in interest rates.

According to the September USDA Drought Monitor report, all of our territory was in a drought ranging from abnormally dry to extreme drought. It was reported that 3.03 percent of the state had received enough rain to not be considered dry or in drought. Our territory received a few rains primarily in September. Also, high temperatures across the territory stayed in place through the end of the quarter. Pasture conditions further deteriorated in most areas of the territory due to lack of enough follow up rain showers coupled with much higher temperatures. Livestock producers had started supplementing with hay that was meant for winter feeding and culling herds. Pasture conditions were rated poor to very poor due to heat stress.

The USDA's report "Texas Crop Progress and Condition" for the last week of September 2023, reported 45 percent of winter wheat planted, down 2 points from the previous year. Winter wheat emerged reached 13 percent down 5 points from the previous year.

Cotton was reported statewide as 68 percent with bolls opening, down 1 point from the previous year and 28 percent harvested, down 2 points from the previous year. Crop conditions were 10 percent of acreage good, 24 percent fair, 26 percent poor and 39 percent very poor. Cotton futures for October 2023 were $.85 climbing to $.88 for the May contract.

Cattle markets continued to climb in the third quarter of 2023. October live cattle futures were trading at $186/cwt near the end of September up from $170/cwt the previous quarter. Forward contracts were moving up with a range of $191/cwt in December to $198/cwt in April of 2024. Feeder cattle were trading at $254/cwt in September and forward contracts advancing through May of 2024 to $274/cwt.

Class III milk futures in September were trading at $18.37/cwt. Forward contracts suggest pricing will continue to fluctuate in a range of $17/cwt to $18/cwt through the remainder of 2023 and early 2024.

Loan Portfolio

Total loans outstanding on September 30, 2023, including nonaccrual loans and sales contracts, were $666,341,864 compared to $640,374,007 on December 31, 2022, reflecting an increase of 4.1 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.4 percent on September 30, 2023, and December 31, 2022.

The Association recorded $34 in recoveries and no charge-offs for the quarter ended September 30, 2023. The Association recorded no recoveries and charge-offs for the same period in 2022. The Association's allowance for credit losses on loans was 0.3 percent and 0.2 percent of total loans outstanding as of September 30, 2023, and December 31, 2022, respectively.

Risk Exposure

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

	September 30, 2023		December 31, 2022	
	Amount	**%**	Amount	%
Nonaccrual	**$ 2,429,210**	**100.0%**	$ 2,847,641	100.0%
Total	**$ 2,429,210**	**100.0%**	$ 2,847,641	100.0%

Results of Operations

The Association had net income of $3,698,259 and $9,129,529 for the three and nine months ended September 30, 2023, as compared to net income of $3,312,067 and $9,036,181 for the same period in 2022, reflecting an increase of 11.7 percent and 1.0 percent. Net interest income was $5,022,056 and $14,743,671 for the three and nine months ended September 30, 2023, compared to $4,615,737 and $13,576,563 for the same period in 2022.

	Nine Months Ended			
	September 30, 2023		September 30, 2022	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 657,879,446**	**$ 29,711,063**	$ 641,900,122	$ 22,659,036
Interest-bearing liabilities	**545,850,366**	**14,967,392**	533,031,481	9,082,473
Impact of capital	**$ 112,029,080**		$ 108,868,641	
Net interest income		**$ 14,743,671**		$ 13,576,563

	2023 Average Yield	2022 Average Yield
Yield on loans	**6.04%**	4.72%
Cost of interest-bearing liabilities	**3.67%**	2.28%
Interest rate spread	**2.37%**	2.44%
Net interest income as a percentage of average earning assets	**3.00%**	2.83%

	Nine months ended: September 30, 2023 vs. September 30, 2022		
	Increase due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 564,070**	**$ 6,487,957**	**$ 7,052,027**
Interest expense	**218,420**	**5,666,499**	**5,884,919**
Net interest income	**$ 345,650**	**$ 821,458**	**$ 1,167,108**

Interest income for the nine months ended September 30, 2023, increased by $7,052,027, or 31.1 percent, from the same period of 2022, primarily due to increases in yields on earning assets and an increase in average loan volume. Interest expense for the nine months ended September 30, 2023, increased by $5,884,919, or 64.8 percent, from the same period of 2022 due to an increase in interest rates and an increase in average debt volume. Average loan volume for the third quarter of 2023 was $657,879,446, compared to $641,900,122 in the third quarter of 2022. The average net interest rate spread on the loan portfolio for the third quarter of 2023 was 2.37 percent, compared to 2.44 percent in the third quarter of 2022.

The Association's return on average assets for the nine months ended September 30, 2023, was 1.79 percent compared to 1.82 percent for the same period in 2022. The Association's return on average equity for the nine months ended September 30, 2023, was 9.45 percent, compared to 9.75 percent for the same period in 2022.

Liquidity and Funding Sources

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

	September 30, 2023	December 31, 2022
Note payable to the Bank	**$ 552,084,379**	$ 526,409,194
Accrued interest on note payable	**1,786,079**	1,449,051
Total	**$ 553,870,458**	$ 527,858,245

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2026. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $552,084,379 as of September 30, 2023, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 3.97 percent at September 30, 2023. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the GFA. The increase in note payable to the Bank and related accrued interest payable since December 31, 2022, is due to the Association's increase in loan volume. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $110,682,088 on September 30, 2023. The maximum amount the Association may borrow from the Bank as of September 30, 2023, was $673,326,824 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, which is September 30, 2026, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

Capital Resources

The Association's capital position increased by $9,310,848 on September 30, 2023, compared to December 31, 2022. The Association's debt as a percentage of members' equity was 4.17:1 as of September 30, 2023, compared to 4.35:1 as of December 31, 2022.

Farm Credit Administration regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of September 30, 2023, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements

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

Relationship With the Farm Credit Bank of Texas

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2022 Annual Report of Central Texas Farm Credit, ACA more fully describe the Association's relationship with the Bank.

The annual and quarterly stockholder reports of the Bank can be found at the Bank's website at *www.farmcreditbank.com*.

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEETS

	September 30, 2023 (unaudited)	December 31, 2022
ASSETS		
Cash	$ 5,135	$ 1,060
Loans	666,341,864	640,374,007
Less: allowance for credit losses	1,683,051	1,426,947
Net loans	664,658,813	638,947,060
Accrued interest receivable	8,367,809	7,243,702
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	10,644,260	10,644,260
Other	173,459	2,572,032
Premises and equipment, net	5,434,397	5,478,861
Other assets	2,253,193	328,671
Total assets	$ 691,537,066	$ 665,215,646
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	$ 552,084,379	$ 526,409,194
Advance conditional payments	37	-
Accrued interest payable	1,786,079	1,449,051
Dividends payable	-	8,300,000
Other liabilities	3,949,116	4,650,794
Total liabilities	557,819,611	540,809,039
MEMBERS' EQUITY		
Capital stock and participation certificates	1,984,395	2,025,230
Unallocated retained earnings	131,490,733	122,114,885
Accumulated other comprehensive income	242,327	266,492
Total members' equity	133,717,455	124,406,607
Total liabilities and members' equity	$ 691,537,066	$ 665,215,646

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2023	2022	**2023**	2022
INTEREST INCOME				
Loans	**$ 10,339,867**	$ 8,194,902	**$ 29,711,063**	$ 22,659,036
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**5,317,811**	3,579,165	**14,967,392**	9,082,473
Net interest income	**5,022,056**	4,615,737	**14,743,671**	13,576,563
(REVERSAL OF) PROVISION FOR CREDIT LOSSES	**(567,070)**	(157,825)	**346,598**	39,802
Net interest income after provision for credit losses	**5,589,126**	4,773,562	**14,397,073**	13,536,761
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**412,899**	837,569	**2,130,367**	2,419,293
Loan fees	**45,942**	34,377	**120,274**	129,590
Financially related services income	**843**	1,100	**5,833**	5,869
Gain (loss) on sale of premises and equipment, net	**27,993**	-	**27,993**	(1,194)
Other noninterest income	**-**	-	**31,636**	48,870
Total noninterest income	**487,677**	873,046	**2,316,103**	2,602,428
NONINTEREST EXPENSES				
Salaries and employee benefits	**1,407,649**	1,403,038	**4,350,530**	4,177,724
Directors' expense	**70,418**	79,865	**164,295**	175,611
Purchased services	**157,651**	114,473	**464,603**	279,391
Travel	**64,014**	95,662	**204,958**	203,615
Occupancy and equipment	**120,018**	96,606	**464,672**	381,667
Communications	**30,712**	35,940	**98,981**	112,287
Advertising	**93,249**	69,523	**257,650**	194,307
Public and member relations	**47,347**	41,184	**249,399**	232,765
Supervisory and exam expense	**70,348**	63,683	**197,713**	186,093
Insurance fund premiums	**230,058**	251,710	**816,045**	861,661
Other components of net periodic postretirement benefit cost	**20,540**	20,061	**61,299**	60,183
Other noninterest expense	**66,540**	62,796	**253,502**	237,704
Total noninterest expenses	**2,378,544**	2,334,541	**7,583,647**	7,103,008
NET INCOME	**3,698,259**	3,312,067	**9,129,529**	9,036,181
Other comprehensive income:				
Change in postretirement benefit plans	**(8,055)**	(5,118)	**(24,165)**	(15,354)
COMPREHENSIVE INCOME	**$ 3,690,204**	$ 3,306,949	**$ 9,105,364**	$ 9,020,827

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2021	$ 2,117,870	$ 117,664,002	$ (55,433)	$ 119,726,439
Comprehensive income	-	9,036,181	(15,354)	9,020,827
Capital stock/participation certificates and allocated retained earnings issued	239,905	-	-	239,905
Capital stock/participation certificates and allocated retained earnings retired	(307,000)	-	-	(307,000)
Patronage refunds:				
Cash	-	-	-	-
Balance at September 30, 2022	$ 2,050,775	$ 126,700,183	$ (70,787)	$ 128,680,171
Balance at December 31, 2022	$ 2,025,230	$ 122,114,885	$ 266,492	$ 124,406,607
Cumulative effect of change in accounting principle (Note 1)	-	253,393	-	253,393
Balance at January 1, 2023	2,025,230	122,368,278	266,492	124,660,000
Comprehensive income	-	9,129,529	(24,165)	9,105,364
Capital stock/participation certificates and allocated retained earnings issued	162,210	-	-	162,210
Capital stock/participation certificates and allocated retained earnings retired	(203,045)	-	-	(203,045)
Patronage refunds:				
Cash	-	(7,074)	-	(7,074)
Balance at September 30, 2023	**$ 1,984,395**	**$ 131,490,733**	**$ 242,327**	**$ 133,717,455**

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

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Central Texas Farm Credit, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Baylor, Brown, Callahan, Coke, Coleman, Comanche, Concho, Haskell, Irion, Jones, Knox, McCulloch, Menard, Mills, Reagans, Runnels, San Saba, Sterling, Stonewall, and Tom Green in the state of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2022, as contained in the 2022 Annual Report to Stockholders.

In the opinion of management, the unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2023. Descriptions of the significant accounting policies are included in the 2022 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

Recently Adopted Accounting Pronouncements

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

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

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

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

Loans and Allowance for Credit Losses

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

Nonaccrual Loans

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

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

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

Accrued Interest Receivable

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

Loan Modifications to Borrowers Experiencing Financial Difficulty

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

Collateral Dependent Loans

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

Allowance for Credit Losses

Effective 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); and
- the allowance for credit losses on unfunded commitments, which is presented on the balance sheet in other liabilities.

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

Methodology for Allowance for Credit Losses on Loans

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

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

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

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

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

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

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

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

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

Allowance for Credit Losses on Unfunded Commitments

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

NOTE 2 — LOANS AND ALLOWANCE FOR CREDIT LOSSES:

A summary of loans follows:

Loan Type	September 30, 2023	December 31, 2022
Production agriculture:		
Real estate mortgage	**$ 456,358,816**	$ 456,460,621
Production and intermediate-term	**98,798,956**	78,334,756
Agribusiness:		
Processing and marketing	**51,858,640**	51,786,443
Farm-related business	**21,241,655**	19,545,152
Loans to cooperatives	**5,233,949**	6,266,947
Communication	**15,279,753**	13,625,571
Energy	**6,302,742**	5,104,698
Water and waste-water	**5,663,953**	3,915,065
International	**4,962,864**	4,669,377
Rural residential real estate	**640,536**	665,377
Total	**$ 666,341,864**	$ 640,374,007

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold on September 30, 2023:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Agribusiness	$ 60,759,142	$ 3,736,808	$ -	$ -	$ 60,759,142	$ 3,736,808
Real estate mortgage	34,194,009	15,219,927	-	-	34,194,009	15,219,927
Production and intermediate-term	26,103,762	13,050,087	-	-	26,103,762	13,050,087
Communication	15,279,753	-	-	-	15,279,753	-
Energy	6,302,742	-	-	-	6,302,742	-
Water and waste-water	5,663,953	-	-	-	5,663,953	-
International	4,962,864	-	-	-	4,962,864	-
Total	$ 153,266,225	$ 32,006,822	$ -	$ -	$ 153,266,225	$ 32,006,822

The Association is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were $37 and $0 at September 30, 2023, and December 31, 2022, respectively.

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, institutions that make loans on a secured basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Loans other than real estate mortgage may be made on a secured or unsecured basis.

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

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

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

The following table presents credit quality indicators by loan type and the related principal balance as of September 30, 2023:

	Term Loans Amortized Cost by Origination Year					
	2023	2022	2021	Prior	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
Real estate mortgage						
Acceptable	$ 45,523,403	$ 67,905,777	$ 107,818,718	$ 231,184,912	$ 54,100	$ 452,486,910
OAEM	-	-	1,530,952	613,119	-	2,144,071
Substandard/Doubtful	-	-	1,442,547	285,288	-	1,727,835
	$ 45,523,403	$ 67,905,777	$ 110,792,217	$ 232,083,319	$ 54,100	$ 456,358,816
Production and intermediate-term						
Acceptable	$ 7,789,072	$ 10,396,854	$ 11,629,585	$ 7,106,737	$ 58,395,412	$ 95,317,660
OAEM	-	92,127	315,576	4,104	1,097,052	1,508,859
Substandard/Doubtful	320,046	43,383	-	1,609,008	-	1,972,437
	$ 8,109,118	$ 10,532,364	$ 11,945,161	$ 8,719,849	$ 59,492,464	$ 98,798,956
Agribusiness						
Acceptable	$ 6,554,333	$ 21,491,049	$ 19,848,311	$ 14,525,896	$ 13,571,940	$ 75,991,529
OAEM	-	1,046,394	944,055	-	352,266	2,342,715
Substandard/Doubtful	-	-	-	-	-	-
	$ 6,554,333	$ 22,537,443	$ 20,792,366	$ 14,525,896	$ 13,924,206	$ 78,334,244
Communications						
Acceptable	$ 6,237,085	$ -	$ 3,394,618	$ 3,403,904	$ 325,843	$ 13,361,450
OAEM	-	-	-	1,918,303	-	1,918,303
Substandard/Doubtful	-	-	-	-	-	-
	$ 6,237,085	$ -	$ 3,394,618	$ 5,322,207	$ 325,843	$ 15,279,753
Energy						
Acceptable	$ 1,997,410	$ -	$ 1,351,046	$ 2,618,476	$ -	$ 5,966,932
OAEM	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	335,810	-	335,810
	$ 1,997,410	$ -	$ 1,351,046	$ 2,954,286	$ -	$ 6,302,742
Water and Waste Water						
Acceptable	$ 991,911	$ 2,041,657	$ 2,496,810	$ -	$ 133,575	$ 5,663,953
OAEM	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-
	$ 991,911	$ 2,041,657	$ 2,496,810	$ -	$ 133,575	$ 5,663,953
International						
Acceptable	$ 4,630,894	$ -	$ -	$ -	$ 331,970	$ 4,962,864
OAEM	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-
	$ 4,630,894	$ -	$ -	$ -	$ 331,970	$ 4,962,864
Rural residential real estate						
Acceptable	$ -	$ 143,886	$ -	$ 496,650	$ -	$ 640,536
OAEM	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-
	$ -	$ 143,886	$ -	$ 496,650	$ -	$ 640,536
Total Loans						
Acceptable	$ 73,724,108	$ 101,979,223	$ 146,539,088	$ 259,336,575	$ 72,812,840	$ 654,391,834
OAEM	-	1,138,521	2,790,583	2,535,526	1,449,318	7,913,948
Substandard/Doubtful	320,046	43,383	1,442,547	2,230,106	-	4,036,082
	$ 74,044,154	$ 103,161,127	$ 150,772,218	$ 264,102,207	$ 74,262,158	$ 666,341,864

The following table shows loans under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans by loan type:

	September 30, 2023	December 31, 2022
Real estate mortgage		
Acceptable	**99.1** %	99.3 %
OAEM	**0.5**	0.3
Substandard/doubtful	**0.4**	0.4
	100.0	100.0
Production and intermediate-term		
Acceptable	**96.5**	99.7
OAEM	**1.5**	0.2
Substandard/doubtful	**2.0**	0.1
	100.0	100.0
Agribusiness		
Acceptable	**97.0**	94.0
OAEM	**3.0**	1.4
Substandard/doubtful	**-**	4.6
	100.0	100.0
Communication		
Acceptable	**87.4**	100.0
OAEM	**12.6**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Energy		
Acceptable	**94.7**	84.7
OAEM	**-**	-
Substandard/doubtful	**5.3**	15.3
	100.0	100.0
Water and Waste Water		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
International		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Rural residential real estate		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Total loans		
Acceptable	**98.2**	98.6
OAEM	**1.2**	0.4
Substandard/doubtful	**0.6**	1.0
	100.0 %	100.0 %

The Association had accrued interest receivable on loans of $8,367,809 and $7,243,702 on September 30, 2023, and December 31, 2022 respectively, which have been excluded from the amortized cost of loans and reported separately in the Consolidated Balance Sheet.

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

	September 30, 2023	December 31, 2022
Nonaccrual loans:		
Real estate mortgage	**$ 261,527**	$ 218,932
Production and intermediate-term	**1,831,873**	-
Agribusiness	**-**	1,845,550
Energy	**335,810**	783,159
Total nonaccrual loans	**$ 2,429,210**	$ 2,847,641
Nonaccrual loans as a percentage of total loans	**0.36%**	0.44%
Nonperforming assets as a percentage of total loans and other property owned	**0.36%**	0.44%
Nonperforming assets as a percentage of capital	**1.82%**	2.29%

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

	September 30, 2023			Interest Income Recognized For the Nine Months Ended September 30, 2023
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	
Nonaccrual loans:				
Real estate mortgage	$ -	$ 261,527	$ 261,527	$ 3,583
Production and intermediate-term	1,601,064	230,809	1,831,873	35,996
Energy and Water/waste disposal	335,810	-	335,810	-
Total nonaccrual loans	$ 1,936,874	$ 492,336	$ 2,429,210	$ 39,579

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

September 30, 2023	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	**$ 888,112**	**$ -**	**$ 888,112**	**$ 455,470,704**	**$ 456,358,816**	**$ -**
Production and intermediate term	**20,362**	**278,240**	**298,602**	**98,500,354**	**98,798,956**	**-**
Processing and marketing	**-**	**-**	**-**	**51,858,640**	**51,858,640**	**-**
Farm-related business	**-**	**-**	**-**	**21,241,655**	**21,241,655**	**-**
Loans to cooperatives	**-**	**-**	**-**	**5,233,949**	**5,233,949**	**-**
Communication	**-**	**-**	**-**	**15,279,753**	**15,279,753**	**-**
Energy	**-**	**-**	**-**	**6,302,742**	**6,302,742**	**-**
Water and waste-water	**-**	**-**	**-**	**5,663,953**	**5,663,953**	**-**
International	**-**	**-**	**-**	**4,962,864**	**4,962,864**	**-**
Rural residential real estate	**-**	**-**	**-**	**640,536**	**640,536**	**-**
Total	**$ 908,474**	**$ 278,240**	**$ 1,186,714**	**$ 665,155,150**	**$ 666,341,864**	**$ -**

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	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 580,087	$ -	$ 580,087	$ 461,516,631	$ 462,096,718	$ -
Production and intermediate term	80,800	-	80,800	79,364,345	79,445,145	-
Processing and marketing	557,949	143,210	701,159	51,304,871	52,006,030	-
Farm-related business	-	-	-	19,677,201	19,677,201	-
Loans to cooperatives	-	-	-	6,274,924	6,274,924	-
Communication	-	-	-	13,685,742	13,685,742	-
Energy	-	957	957	5,142,329	5,143,286	-
Water and waste-water	-	-	-	4,670,861	4,670,861	-
International	-	-	-	3,951,160	3,951,160	-
Rural residential real estate	-	-	-	666,642	666,642	-
Total	$ 1,218,836	$ 144,167	$ 1,363,003	$ 646,254,706	$ 647,617,709	$ -

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

Allowance for Credit Losses

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

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

	Real Estate Mortgage	Production and Intermediate-Term	Agri-business	Communi-cations	Energy	Water and Waste Disposal	Rural Residential Real Estate	International	Total
Allowance for Credit Losses on Loans:									
Balance at June 30, 2023	$ 538,334	$ 446,482	$ 1,083,785	$ 13,072	$ 156,779	$ 5,427	$ 120	$ 2,925	$ 2,246,924
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	34	-	-	-	-	-	-	-	34
Provision for (reversal of) credit loss	30,901	238,495	(847,377)	18,330	(3,931)	(253)	2	(74)	(563,907)
Other	-	-	-	-	-	-	-	-	-
Balance at September 30, 2023	$ 569,269	$ 684,977	$ 236,408	$ 31,402	$ 152,848	$ 5,174	$ 122	$ 2,851	$ 1,683,051
Balance at December 31, 2022	$ 305,431	$ 270,913	$ 577,823	$ 32,844	$ 224,567	$ 10,615	$ 233	$ 4,521	$ 1,426,947
Cumulative effect of a change in accounting principle	163,091	(93,160)	(176,994)	(21,546)	(1,116)	(5,914)	(103)	(2,506)	(138,248)
Balance at January 1, 2023	468,522	177,753	400,829	11,298	223,451	4,701	130	2,015	1,288,699
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	3,711	-	-	-	-	-	-	-	3,711
Provision for (reversal of) credit loss	97,036	507,224	(164,421)	20,104	(70,603)	473	(8)	836	390,641
Other	-	-	-	-	-	-	-	-	-
Balance at September 30, 2023	$ 569,269	$ 684,977	$ 236,408	$ 31,402	$ 152,848	$ 5,174	$ 122	$ 2,851	$ 1,683,051
Balance at June 30, 2022	$ 367,069	$ 305,479	$ 690,747	$ 32,384	$ 377,597	$ 9,792	$ 286	$ 9,021	$ 1,792,375
Charge-offs	-	-	-	-	-	-	-	-	
Recoveries	-	-	-	-	-	-	-	-	-
Provision for (reversal of) credit loss	(487)	4,048	(163,326)	(31)	(353)	20	18	2,286	(157,825)
Other	10	23,842	24,379	(223)	(3)	-	-	(2,274)	45,731
Balance at September 30, 2022	$ 366,592	$ 333,369	$ 551,800	$ 32,130	$ 377,241	$ 9,812	$ 304	$ 9,033	$ 1,680,281
Balance at December 31, 2021	$ 359,949	$ 405,304	$ 459,979	$ 32,536	$ 377,690	$ 3,038	$ 1,386	$ 8,975	$ 1,648,857
Charge-offs	-	-	-	-	-	-	-	-	
Recoveries	-	-	-	-	-	-	-	-	-
Provision for (reversal of) credit loss	6,763	(55,208)	84,948	(134)	(664)	2,807	(1,082)	2,372	39,802
Other	(120)	(16,727)	6,873	(272)	215	3,967	-	(2,314)	(8,378)
Balance at September 30, 2022	$ 366,592	$ 333,369	$ 551,800	$ 32,130	$ 377,241	$ 9,812	$ 304	$ 9,033	$ 1,680,281
Allowance for Unfunded Commitments:									
Balance at June 30, 2023	$ 168	$ 18,816	$ 46,847	$ 705	$ 1	$ 1,377	$ -	$ 1,384	$ 69,298
Provision for unfunded commitments	(111)	(1,896)	(1,650)	310	-	(18)	-	202	(3,163)
Balance at September 30, 2023	$ 57	$ 16,920	$ 45,197	$ 1,015	$ 1	$ 1,359	$ -	$ 1,586	$ 66,135
Balance at December 31, 2022	$ 137	$ 94,010	$ 124,215	$ 1,922	$ 2	$ 694	$ -	$ 4,343	$ 225,323
Cumulative effect of a change in accounting principle	(99)	(70,808)	(40,275)	(1,156)	(1)	(389)	-	(2,417)	(115,145)
Balance at January 1, 2023	38	23,202	83,940	766	1	305	-	1,926	110,178
Provision for unfunded commitments	19	(6,282)	(38,743)	249	-	1,054	-	(340)	(44,043)
Balance at September 30, 2023	$ 57	$ 16,920	$ 45,197	$ 1,015	$ 1	$ 1,359	$ -	$ 1,586	$ 66,135

[1] For periods prior to January 1, 2023, the allowance for credit losses was based on probable and estimable losses inherent in the loan portfolio.

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.

As of September 30, 2023, the Association had no troubled debt restructured loans. As of December 31, 2022, the Association had one trouble debt restructured loan.

NOTE 3 —LEASES:

The components of lease expense were as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2023	September 30, 2022	**September 30, 2023**	September 30, 2022
Operating lease cost	**$ 4,228**	$ 4,228	**$ 12,684**	$ 12,684
Net lease cost	**$ 4,228**	$ 4,228	**$ 12,684**	$ 12,684

Other information related to leases was as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2023	September 30, 2022	**September 30, 2023**	September 30, 2022
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	**$ 5,880**	$ 5,670	**$ 17,360**	$ 17,010

Lease term and discount rate are as follows:

	September 30, 2023	December 31, 2022
Weighted average remaining lease term in years		
Operating leases	**0.58**	1.33
Weighted average discount rate		
Operating leases	**3.97%**	3.22%

Future minimum lease payments under non-cancellable leases as of September 30, 2023, were as follows:

	Total
2023 (excluding the six months ended 9/30/23)	$ 5,880
2024	7,840
2025	-
2026	-
Thereafter	-
Total	$ 13,720

NOTE 4 — CAPITAL:

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

	September 30, 2023	December 31, 2022
Capital stock and participation certificates	**$ 1,984,395**	$ 2,025,230
Accumulated other comprehensive loss	**242,327**	266,492
Retained earnings[1]	**131,490,733**	122,114,885
Total Capital	**$ 133,717,455**	$ 124,406,607

[1] Retained earnings for the quarter ended September 30, 2023, reflects an increase from the cumulative effect of a change in accounting principle for CECL on January 1, 2023.

Regulatory Capitalization Requirements

Risk-adjusted:	**Regulatory Minimums wih Buffer**	**As of September 30, 2023**
Common equity tier 1 ratio	7.00%	17.04%
Tier 1 capital ratio	8.50%	17.04%
Total capital ratio	10.50%	17.32%
Permanent capital ratio	7.00%	17.08%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.00%	17.73%
UREE leverage ratio	1.50%	17.44%

The details for the amounts used in the calculation of the regulatory capital ratios as of September 30, 2023:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 128,037,238	$ 128,037,238	$ 128,037,238	$ 128,037,238
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	1,991,723	1,991,723	1,991,723	1,991,723
Allowance for credit losses and reserve for credit losses subject to certain limitations	-	-	1,960,677	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(10,644,260)	(10,644,260)	(10,644,260)	(10,644,260)
	$ 119,384,701	$ 119,384,701	$ 121,345,378	$ 119,384,701
Denominator:				
Risk-adjusted assets excluding allowance	$ 711,417,050	$ 711,417,050	$ 711,417,050	$ 711,417,050
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(10,644,260)	(10,644,260)	(10,644,260)	(10,644,260)
Allowance for credit losses	-	-	-	(1,891,516)
	$ 700,772,790	$ 700,772,790	$ 700,772,790	$ 698,881,274

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	$ 128,037,238	$ 128,037,238
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	1,991,723	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(10,644,260)	(10,644,260)
Other regulatory required deductions	-	-
	$ 119,384,701	$ 117,392,978
Denominator:		
Total Assets	$ 687,520,389	$ 687,520,389
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(14,219,569)	(14,219,569)
	$ 673,300,820	$ 673,300,820

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

		Accumulated Other Comprehensive Income (Loss)
Balance at June 30, 2023	$	**250,382**
Other comprehensive income before reclassifications		**(8,055)**
Net current period other comprehensive income		**(8,055)**
Balance at September 30, 2023	$	**242,327**
Balance at January 1, 2023	$	**266,492**
Other comprehensive income before reclassifications		**(24,165)**
Net current period other comprehensive income		**(24,165)**
Balance at September 30, 2023	$	**242,327**

		Accumulated Other Comprehensive Income (Loss)
Balance at June 30, 2022	$	(65,669)
Other comprehensive income before reclassifications		(5,118)
Net current period other comprehensive income		(5,118)
Balance at September 30, 2022	$	(70,787)
Balance at January 1, 2022	$	(55,433)
Other comprehensive income before reclassifications		(15,354)
Net current period other comprehensive income		(15,354)
Balance at September 30, 2022	$	(70,787)

NOTE 5 — INCOME TAXES:

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

NOTE 6 — FAIR VALUE MEASUREMENTS:

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 13 in the 2022 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

September 30, 2023	**Fair Value Measurement Using**			**Total Fair**	**Total Gains**
	Level 1	**Level 2**	**Level 3**	**Value**	**(Losses)**
Assets:					
Loans	**$ -**	**$ -**	**$ 1,285,938**	**$ 1,285,938**	**$ -**

December 31, 2022	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Assets:					
Loans	$ -	$ -	$ 2,309,096	$ 2,309,096	$ -

Valuation Techniques

As more fully discussed in Note 13 to the 2022 Annual Report to Stockholders, authoritative 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. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see the 2022 Annual Report to Stockholders.

Loans Evaluated for Impairment

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

Other Property Owned

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

Cash

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

Loans

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

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

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

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the three and nine months ended September 30:

Three months ended September 30:

	Other Benefits	
	2023	2022
Service cost	**$ 5,491**	$ 8,755
Interest cost	**23,104**	16,424
Amortization of prior service credits	**(5,119)**	(5,118)
Amortization of net actuarial gain	**(2,936)**	-
Net periodic benefit cost	**$ 20,540**	$ 20,061

Nine months ended September 30:

	Other Benefits	
	2023	2022
Service cost	**$ 16,136**	$ 26,263
Interest cost	**69,328**	49,272
Amortization of prior service credits	**(15,358)**	(15,354)
Amortization of net actuarial gain	**(8,807)**	-
Net periodic benefit cost	**$ 61,299**	$ 60,181

The Association's liability for the unfunded accumulated obligation for these benefits on September 30, 2023, was $1,834,911 and is included in other liabilities on the balance sheet.

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

The structure of the District's defined benefit pension plan is characterized as multiemployer since the assets, liabilities, and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The Association previously disclosed in its financial statements for the year ended December 31, 2022, that it expected to contribute $74,876 to the District's defined benefit pension plan in 2023. As of September 30, 2023, $61,299 of contributions have been made. The Association presently anticipates contributing an additional $19,587 to fund the defined benefit pension plan in 2023 for a total of $80,886.

NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:

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

NOTE 9 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through November 9, 2023, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 9, 2023.