



# ANNUAL REPORT 2021



# A MESSAGE FROM OUR CEO

Dear Stockholders,

On behalf of the entire team here at Lone Star, we are pleased to share the 2021 financial report that follows. The success presented on the following pages represents the collective success of thousands of farmers, ranchers, agribusinesses and families that rely on Lone Star for expert financing solutions.

While the year brought continued challenges due to the impact of COVID-19, we've also seen tremendous opportunities. As I say often, the pipeline of new business is the lifeblood of the Association, and in 2021 new business continued at a record pace with the team closing more than \$1 billion in new loan volume across a diverse array of commodities and repayment sources. This tremendous production led the Association to a record level of earning assets, record net income, and yes — a record patronage distribution! Over just the last two (2) years, total assets increased by more than 40 percent, or nearly \$667.3 million, to \$2.33 billion at year end.

That growth is the result of a passionate referral network, strong population growth across our territory, and an increasing desire by many to enjoy the rural lifestyle. During 2021, we welcomed over 1,200 new customer-owners to Lone Star!



**During 2021,  
we welcomed  
over 1,200 new  
customer-owners  
to Lone Star!**

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**\$46.2  
MILLION**

NET INCOME  
RECORD

2021

**99.1%**

END-OF-YEAR  
CREDIT QUALITY



**\$1  
BILLION**

NEW LOAN  
VOLUME RECORD

But, as the old saying goes, "The road to success is always under construction!" That could not be truer than here at Lone Star. While the Association's roots date back to 1917, it is in our DNA to stay relevant and competitive in the market, providing modern and customized financial solutions to rural America.

The pandemic demonstrated to all of us that using secure technology to complement personalized human interaction can create frictionless customer and user experiences. We believe our systems should be designed by our team of experts across the Association with your input, and our vendors should have a proven track record to deliver best-in-class solutions. As a result of that commitment, we went live with our new nCino bank operating system in January 2021, which allowed us to streamline processing time and enhance the loan closing and servicing process. As the cover photo depicts, we will continue rolling out additional functionality that enhances your ability to transact business: when, where and how you desire.

Looking ahead, there will no doubt be uncertainty and challenges as the world lands on a new normal post-COVID. Actually, we've said that many times in the past, and every time, we adapted and overcame. Rest assured, the Association is well-positioned for the future as we focus on overcoming challenges while seizing opportunities.

Lastly, none of the achievements described in this report would have been possible without the hard and expert work of our talented and committed team. Like you, they come from diverse backgrounds and from all walks of life. As unique as they are, they share a common passion for financing everything outside the city limits and providing you with the first-class financing experiences you have come to expect. Thanks, team!

And THANK YOU for your continued support. Please keep those referrals coming!

Sincerely,  
**Joe H. Hayman**

President and CEO

**817-509-8381**  
**joe.hayman@lonestaragcredit.com**



# FINANCING THEIR PIECE OF TEXAS

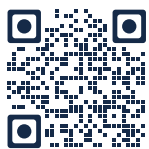
DAWSON FARMS | CRANFILLS GAP, TEXAS

Some folks may dream of retiring from a lifetime of farming. Not Hank and Annie Dawson.

As Hank neared retirement from a career in the construction industry, he and Annie dreamed of retiring to the country and pursuing their agricultural interests.

“When I got close to retirement, we were looking for a piece of property, and the intent was to be able to enjoy farming and to share that with our kids and grandkids.”

With the help of **Lone Star Ag Credit**, the Dawsons’ dream came true 10 years ago when they found their perfect property near Cranfills Gap.



Scan the  
QR Code  
to Watch  
the video

## A deep-rooted history



The couple initially purchased a 40-acre hilltop tract, which was part of the historic Rogstad farm. The Rogstads were one of eight Norwegian families who’d immigrated to Central Texas in the early 1850s, homesteading in an area later known as the Norse Valley.

To expand their acreage, the Dawsons purchased more pieces of the original farm from surrounding landowners, eventually acquiring 120 contiguous acres — enough land for their agricultural enterprises of beekeeping, lavender production and raising red stag deer.

Respectful of the farm’s history, they have maintained early structures on the property, including the Rogstads’ original one-room stone cabin, a hand-dug well and an abandoned residence. The building, which once housed the community’s party-line telephone switchboard operator, has been restored, as well as updated with modern conveniences, and is now offered as a bed-and-breakfast retreat.



## Handcrafted farm products

Annie takes an active role in creating products from the couple's own crops. She incorporates honey, beeswax and lavender into handcrafted soaps, beeswax candles, lotions, sugar scrubs and other items.

The products are sold in local retail shops, farmers' markets, and online. Annie even offers workshops on how to make soap, beeswax candles, bath salt creations and lavender wreaths. During her workshops, she also shares her insight on beekeeping and growing lavender.

"We get a lot of enjoyment and satisfaction being out here in the Gap," Hank says.



## A trusted relationship

"With rural property, I don't think that you can go wrong with **Lone Star Ag Credit**," Hank says. "Working with Aaron is a friendship — it's a good relationship."

But the Dawsons also appreciate Lone Star's financing options and cooperative benefits. The lending co-op provided financing for the purchase of four tracts of land.

“

I like the terms that Lone Star Ag offers. When you factor in the dividend check, your interest rate is actually lower. I'm very comfortable working with Lone Star Ag Credit.

- Hank Dawson

”



# CUSTOMER OWNER-LEADERSHIP

The Lone Star Ag Credit board of directors proudly supports our customer-owners. Together, the board members set the direction and policy for the co-op and represent the best interests of our customer-owners, to whom they are accountable. For full biographies, see the Disclosure Information and Index section of this report.

## BOARD OF DIRECTORS



**Brent Neuhaus**  
Board Chairman  
Governance Committee



**Cody Hughes**  
Audit Committee



**Asa G. Langford**  
Board Vice Chairman  
Audit Committee



**Bert Pruett**  
Audit Committee



**David Conrad**  
Audit Committee  
Chairman



**Chad Lee**  
Compensation Committee  
Chairman



**Matt Carter**  
Audit Committee



**Josh Drews**  
Compensation Committee



**Robert Eubanks, Sr.**  
Compensation Committee



**Stacey Schumacher**  
Compensation Committee



**Tina Murphy**  
Compensation Committee



**David Harris**  
Governance Committee  
Chairman

## EXECUTIVE COMMITTEE



**Joe H. Hayman**  
Chief Executive Officer



**Nicholas (Nick) Acosta**  
Chief Financial Officer



**Jim Bob Reynolds**  
Chief Credit Officer



**Matt James**  
Chief Lending Officer



**Jeff Royal**  
Chief Collateral Risk Officer



**Hans Pettit**  
Chief Risk Officer



**Justin Renard**  
Chief Information Officer



**Jeff Moder**  
Chief Marketing &  
Communications Officer



# DIGITAL TRANSFORMATION



After evaluating a variety of new, innovative ways to empower employees and enhance customer experience, in January 2021, Lone Star Ag Credit launched the nCino Bank Operating System.

"The nCino launch marked the beginning stages of a digital transformation and a new era in delivering financial services to member-owners," said Joe Hayman, CEO of Lone Star Ag Credit.



nCino is designed to solve the unique challenges cooperatives like Lone Star face every day and provide teams with best-in-class technology to deliver quality financial services effectively and efficiently to rural customers, while also helping reduce risk.

"With a renewed emphasis on enhanced customer experience through digital capabilities, we're on a path to positively leverage data for customer insights and improved processing efficiency. It's an exciting time that will enable us to best meet and exceed the expectations of our customers and continue to support agriculture and rural communities with reliable and consistent credit and financial services," Hayman said.

The decision to implement nCino helps Lone Star Ag Credit move to the forefront of high-tech lending to meet the changing financial needs of customers.

The loan origination system provides a scalable, flexible solution that is easy to use, reduces operating costs and supports loan growth — all within a single platform. The system allows for an enhanced employee and customer experience, and seamlessly and efficiently supports Lone Star's digital capabilities.

With robust reporting tools, data can be easily and securely viewed by executive management, as well as regulators. The improved transparency allows for stronger portfolio management, enabling Lone Star to leverage data to support enhanced customer insight, enable improved communication and even establish closer partnerships with customers.

"By improving efficiency and maximizing the use of digital tools, we will better enable our lending team to serve rural customers where they live," added Hayman.

## STRAIGHT FROM OUR CUSTOMER-OWNERS

“

Lone Star Ag Credit was awesome to work with in the closing of our property. They were helpful, made everything easy to understand and the process went so smoothly. Would definitely recommend them.

- Cindy P.

”

“

The folks there made the whole process of buying land easy. Great at communicating what was needed, guided us every step of the way. Jennifer W. did a super job answering questions and was very available. Highly recommend them!!!

- Sharla M.

”

The team at Lone Star Ag Credit did a great job with our loan. They made the entire process seamless and were always there for us for any questions or concerns along the way. Great team and great service.

- Emily K.

It was great start to finish. Everyone was helpful in helping to understand the process, and ready to answer any questions I had. I would recommend Lone Star to anyone.

- Dewayne R.

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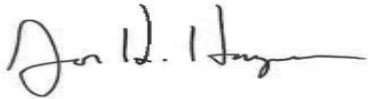
## REPORT OF MANAGEMENT

The consolidated financial statements of Lone Star, 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' (Bank) 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 auditors, 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 (Board) has overall responsibility for the Association's systems of internal control and financial reporting. The Board consults regularly with management and reviews the results of the audits and examinations referred to previously.

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



Joe H. Hayman, Chief Executive Officer

March 11, 2022



Brent Neuhaus, Chairman, Board of Directors

March 11, 2022



Nicholas Acosta, Chief Financial Officer

March 11, 2022



David Conrad, Chairman, Audit Committee

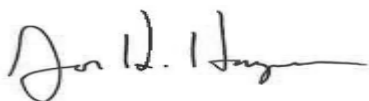
March 11, 2022

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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



Joe H. Hayman, Chief Executive Officer

March 11, 2022



Nicholas Acosta, Chief Financial Officer

March 11, 2022

## REPORT OF AUDIT COMMITTEE

The Audit Committee (Committee) is composed of five members from the Board of Directors of Lone Star, ACA. In 2021, 13 meetings were held. The Committee oversees the scope of Lone Star, ACA'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 Lone Star, ACA's website. The Committee approved the appointment of PricewaterhouseCoopers LLP (PwC), independent auditors, to perform the consolidated financial statements audit for 2021.

Management is responsible for Lone Star, ACA'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 Lone Star, ACA'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 Lone Star, ACA's audited consolidated financial statements for the year ended December 31, 2021 (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 Lone Star, ACA's internal auditors, directly provide reports on significant matters to the Committee.

The Committee discussed with PwC its independence from Lone Star, ACA. The Committee also reviewed the non-audit 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 such other matters and received such assurances from them as the Committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the audited consolidated financial statements in Lone Star, ACA's Annual Report to Stockholders for the year ended December 31, 2021.

### Audit Committee Members

David W. Conrad, CPA, Chairman  
Matt Carter  
Cody Hughes  
Asa Langford  
Bert Pruett

March 11, 2022



**LONE STAR, ACA**

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

	2021	2020	2019	2018	2017
<b><u>Balance Sheet Data</u></b>					
<u>Assets</u>					
Cash	\$ 40	\$ 87	\$ 66	\$ 100	\$ 90
Loans	2,287,886	1,965,793	1,631,671	1,559,619	1,681,073
Less: allowance for credit losses	(7,336)	(8,045)	(7,129)	(8,645)	(9,182)
Net loans	2,280,550	1,957,748	1,624,542	1,550,974	1,671,891
Investment in and receivable from the Bank	35,337	30,731	26,082	29,603	28,897
Other assets	17,803	15,183	15,739	13,433	13,118
Total assets	<u>\$ 2,333,730</u>	<u>\$ 2,003,749</u>	<u>\$ 1,666,429</u>	<u>\$ 1,594,110</u>	<u>\$ 1,713,996</u>
<u>Liabilities</u>					
Obligations with maturities of one year or less	\$ 44,171	\$ 29,104	\$ 33,075	\$ 30,983	\$ 11,862
Obligations with maturities greater than one year	1,903,222	1,610,616	1,281,576	1,219,700	1,361,491
Total liabilities	<u>1,947,393</u>	<u>1,639,720</u>	<u>1,314,651</u>	<u>1,250,683</u>	<u>1,373,353</u>
<u>Members' Equity</u>					
Capital stock and participation certificates	5,930	5,841	5,737	5,911	6,387
Additional paid-in capital	91,344	91,344	91,343	91,343	91,343
Unallocated retained earnings	290,017	267,904	255,587	246,572	244,271
Accumulated other comprehensive loss	(954)	(1,060)	(889)	(399)	(1,358)
Total members' equity	<u>386,337</u>	<u>364,029</u>	<u>351,778</u>	<u>343,427</u>	<u>340,643</u>
Total liabilities and members' equity	<u>\$ 2,333,730</u>	<u>\$ 2,003,749</u>	<u>\$ 1,666,429</u>	<u>\$ 1,594,110</u>	<u>\$ 1,713,996</u>
<b><u>Statement of Income Data</u></b>					
Net interest income	\$ 61,882	\$ 49,048	\$ 45,669	\$ 48,025	\$ 47,043
Reversal of (provision for) credit losses	1,301	(775)	1,824	576	630
Income from the Bank	12,062	8,846	6,660	6,592	6,237
Other noninterest income	1,606	1,635	1,253	2,001	1,147
Noninterest expense	(30,724)	(24,210)	(26,922)	(27,540)	(43,468)
Benefit from (provision for) income taxes	30	17	53	(24)	(1)
Net income	<u>\$ 46,157</u>	<u>\$ 34,561</u>	<u>\$ 28,537</u>	<u>\$ 29,630</u>	<u>\$ 11,588</u>
<b><u>Key Financial Ratios for the Year</u></b>					
Return on average assets	2.1%	1.9%	1.8%	1.8%	0.7%
Return on average members' equity	12.0%	9.4%	8.0%	8.5%	3.4%
Net interest income as a percentage of average earning assets	2.9%	2.7%	2.9%	2.9%	2.8%
Net charge-offs (recoveries) as a percentage of average loans	0.0%	0.0%	0.0%	0.0%	0.0%

**LONE STAR, ACA**

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

	2021	2020	2019	2018	2017
<b><u>Key Financial Ratios at Year End *</u></b>					
Members' equity as a percentage of total assets	16.6%	18.2%	21.1%	21.5%	19.9%
Debt as a percentage of members' equity	504.1%	450.4%	373.7%	364.2%	403.2%
Allowance for credit losses as a percentage of loans	0.3%	0.4%	0.4%	0.6%	0.5%
Common equity tier 1 ratio	16.1%	16.9%	19.7%	19.9%	18.0%
Tier 1 capital ratio	16.1%	16.9%	19.7%	19.9%	18.0%
Total capital ratio	16.5%	17.2%	20.1%	20.4%	18.5%
Permanent capital ratio	16.2%	16.9%	19.8%	20.0%	18.1%
Tier 1 leverage ratio	16.5%	17.6%	20.6%	20.7%	18.9%
UREE leverage ratio	17.5%	18.6%	21.9%	22.0%	20.0%
<b><u>Net Income Distribution</u></b>					
Cash dividends paid**	\$ 14,650	\$ 26,908	\$ 20,377	\$ 7,050	\$ 13,810

\*Effective January 1, 2017 the new regulatory capital ratios were implemented by the Association. Regulatory ratios remained well above regulatory minimums with buffers; at December 31, 2021. For more information, see Note 11 in the accompanying consolidated financial statements, "Members' Equity," included in this annual report.

\*\* The total patronage paid based on 2020 earnings was \$22,103,662. An advance payment in the amount of \$7,424,105 of the patronage paid based on 2020 year-end earnings was paid in October 2020 in an effort to assist member-owners during an unprecedented and challenging time resulting from COVID-19. The remaining balance in the amount of \$14,649,904 was paid in March 2021.

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

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Lone Star, ACA, including its wholly owned subsidiaries, Lone Star, PCA and Lone Star, FLCA (collectively referred to as the "Association") for the years ended December 31, 2021, 2020 and 2019, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying financial statements were prepared under the oversight of the Association's Audit Committee.

### Forward-Looking Information:

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

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

### Patronage Refunds by Association:

In December 2021, the Board declared a cash patronage in the amount of \$24,154,277 to be paid in February 2022 based on 2021 earnings. The patronage will be paid to eligible borrowers based on their average outstanding loan balance for the year ending December 31, 2021. The Association's total capital position remains strong after the declaration of patronage at 16.2 percent for the period ending December 2021.

In September 2020, the Board declared an advance payment of patronage on expected 2020 full-year patronage paid to eligible borrowers in October 2020. This advance in the amount of \$7,424,105 was made in an effort to assist member-owners during an unprecedented and challenging time resulting from COVID-19. In December 2020, the Board declared a cash patronage in the amount of \$14,759,557 paid in March 2021 based on 2020 earnings. The total patronage declared based on 2020 earnings was \$22,103,662.

The Association declared a cash patronage of \$19,521,714 based on 2019 earnings paid in March 2020.

### Patronage Refunds Received from the Bank:

The following table provides information on the patronage received from the Bank for the years ended December 31, 2021, 2020 and 2019, respectively:

	2021	2020	2019
Direct loan patronage	\$ 11,413,146	\$ 8,135,546	\$ 5,742,455
Stock investment in the Bank	534,798	585,023	772,220
AMBS investment patronage	114,337	125,448	145,426
Total Patronage Received	<u>\$ 12,062,281</u>	<u>\$ 8,846,017</u>	<u>\$ 6,660,101</u>

The direct loan patronage received in 2021, 2020 and 2019 represents 65, 56 and 46 basis points, respectively, on the average daily balance of the Association's direct loan with 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 of long-term farm mortgage loans, production and intermediate-term loans and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed, adjustable, LIBOR-based, SOFR-based, and prime-based interest rates. Commercial loans primarily consist of operating loans and short-term loans for working capital, equipment and livestock. Mortgage loans primarily consist of 20- to 30-year maturities. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

The composition of the Association's loan portfolio, including principal less funds held of \$2,287,885,939, \$1,965,793,014 and \$1,631,671,416 as of December 31, 2021, 2020 and 2019, respectively, is described more fully in detailed tables in Note 4 to the consolidated financial statements, "Loans and Allowance for Credit Losses," included in this annual report.

## Purchase and Sales of Loans:

The following table provides information on participations purchased and sold during the year ended December 31:

	2021	2020	2019
Participations purchased from:			
Entities in the district	\$ 323,415,039	\$ 306,538,266	\$ 269,354,027
Entities outside the district	10,324,740	3,482,456	3,654,741
Total	<u>\$ 333,739,779</u>	<u>\$ 310,020,722</u>	<u>\$ 273,008,768</u>
Entities in the district to total loans	14.1%	15.6%	16.5%
Entities outside the district to total loans	0.5%	0.2%	0.2%
Participations sold	\$ 67,693,092	\$ 27,134,724	\$ 14,050,926

Effective January 26, 2012, the Bank purchased Lone Star, ACA's securitized Farmer Mac Agricultural Mortgage Backed Securities (AMBS) Investments. The purchase of \$35,459,508 included outstanding principal and accrued interest as of that date. There was no gain or loss recognized by the Association on this transaction. The Association will continue to service the underlying loans that were included in this security. Also, there is intended to be no effect to Lone Star, ACA's income based on this transaction as it is expected that the Bank will be able to pay the Association a patronage equivalent to the net interest that would have been earned on the AMBS investment. However, the Bank's payment of patronage is at the discretion of the Bank's board of directors. The remaining balance of the AMBS investment at December 31, 2021 was \$3,230,859.

## Risk Exposure:

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

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

	2021		2020		2019	
	Amount	%	Amount	%	Amount	%
Nonaccrual	\$ 3,231,936	97.0%	\$ 5,047,957	93.6%	\$ 3,333,895	74.4%
90 days past due and still accruing interest	-	0.0%	234,577	4.3%	-	0.0%
Formally restructured	101,648	3.0%	111,159	2.1%	1,149,573	25.6%
Total	<u>\$ 3,333,584</u>	<u>100.0%</u>	<u>\$ 5,393,693</u>	<u>100.0%</u>	<u>\$ 4,483,468</u>	<u>100.0%</u>

During 2021, the Association experienced a \$1,816,021 net decrease in nonaccrual loan volume for a total outstanding volume of \$3,231,936 as of December 31, 2021. The primary driver of the decrease in nonaccruals from 2021 was due to paydowns on several relationships during the year. Of the 3,231,936 in nonaccrual at December 31, 2021, livestock, except dairy and poultry, comprised \$2,217,101; electric services comprised \$433,264; and the remaining balance comprised of various other commodities.

During 2021, the Association experienced a \$9,511 decrease in formally restructured loans for a total outstanding volume of \$101,648. The decrease was primarily attributed to principle balance paydowns during the year.

At December 31, 2021, the Association held no property classified as other property owned.

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

### Allowance for Credit Losses:

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

	2021	2020	2019
Allowance for credit losses	\$ 7,335,544	\$ 8,044,487	\$ 7,129,083
Allowance for credit losses to total loans	0.3%	0.4%	0.4%
Allowance for credit losses to nonaccrual loans	227.0%	159.4%	213.8%
Allowance for credit losses to impaired loans	220.0%	149.1%	159.0%
Net charge-offs to average loans	0.0%	0.0%	0.0%

The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and economic conditions, and prior loan loss experience. Management may consider other qualitative factors in determining and supporting the level of allowance for credit losses including but not limited to: lending policies and procedures, economic and business conditions, nature and volume of the portfolio, lending management, problem loans, loan review quality, concentration and other external factors.

Based upon ongoing risk assessment and the evaluation process for allowance for credit losses outlined above, the allowance for credit losses is considered adequate by management to compensate for inherent losses in the loan portfolio. Management's process for the evaluation of allowance for credit losses includes a portfolio analysis, peer comparison with similar Farm Credit Institutions and similar commercial banks and an analysis of historical loss experience. The decrease in the allowance is primarily driven by qualitative and environmental allowance adjustments, continuous improvement in credit quality and recoveries.

Management maintains an additional allowance pool to address the need for allowance for loan commitments that have been established, but are not yet drawn. This allowance pool on unfunded commitments is reflected in other liabilities and is not reflected in the allowance for credit losses balance. Based on historical trends, projected needs and the implementation of additional allowance pools, management believes that the allowance is adequate.

### Results of Operations:

The Association's net income for the year ended December 31, 2021, was \$46,157,705 as compared to \$34,560,564 for the year ended December 31, 2020, reflecting an increase of \$11,597,141, or 33.6 percent. The Association's net income for the year ended December 31, 2019 was \$28,537,295. Net income increased \$6,023,269, or 21.1 percent, in 2020 versus 2019.

Net interest income for 2021, 2020 and 2019 was \$61,881,599, \$49,048,712 and \$45,668,933, respectively, reflecting an increase of \$12,832,887, or 26.2 percent, for 2021 versus 2020 and an increase of \$3,379,779, or 7.4 percent, for 2020 versus 2019. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2021		2020		2019	
	Average Balance	Interest	Average Balance	Interest	Average Balance	Interest
Loans	<u>\$ 2,109,394,008</u>	<u>\$ 95,947,832</u>	<u>\$ 1,796,246,169</u>	<u>\$ 83,755,372</u>	<u>\$ 1,588,179,759</u>	<u>\$ 82,797,384</u>
Total interest-earning assets	<u>2,109,394,008</u>	<u>95,947,832</u>	<u>1,796,246,169</u>	<u>83,755,372</u>	<u>1,588,179,759</u>	<u>82,797,384</u>
Interest-bearing liabilities	<u>1,747,118,637</u>	<u>34,066,233</u>	<u>1,448,430,008</u>	<u>34,706,660</u>	<u>1,250,036,210</u>	<u>37,128,451</u>
Impact of capital	<u>\$ 362,275,371</u>		<u>\$ 347,816,161</u>		<u>\$ 338,143,549</u>	
Net interest income		<u>\$ 61,881,599</u>		<u>\$ 49,048,712</u>		<u>\$ 45,668,933</u>

	2021 Average Yield	2020 Average Yield	2019 Average Yield
Yield on loans	4.55%	4.66%	5.21%
Total yield on interest-earning assets	4.55%	4.66%	5.21%
Cost of interest-bearing liabilities	1.95%	2.40%	2.97%
Interest rate spread	2.60%	2.26%	2.24%
Net interest income as a percentage of average earning assets	2.93%	2.73%	2.88%

	2021 vs. 2020			2020 vs. 2019		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income - loans	<u>\$ 14,601,457</u>	<u>\$ (2,408,997)</u>	<u>\$ 12,192,460</u>	<u>\$ 10,847,334</u>	<u>\$ (9,889,346)</u>	<u>\$ 957,988</u>
Total interest income	<u>14,601,457</u>	<u>(2,408,997)</u>	<u>12,192,460</u>	<u>10,847,334</u>	<u>(9,889,346)</u>	<u>957,988</u>
Interest expense	<u>7,157,177</u>	<u>(7,797,604)</u>	<u>(640,427)</u>	<u>5,892,693</u>	<u>(8,314,484)</u>	<u>(2,421,791)</u>
Net interest income	<u>\$ 7,444,280</u>	<u>\$ 5,388,607</u>	<u>\$ 12,832,887</u>	<u>\$ 4,954,641</u>	<u>\$ (1,574,862)</u>	<u>\$ 3,379,779</u>

Interest income for 2021 increased by \$12,192,460, or 14.6 percent, compared to 2020, primarily due to an increase in average loan volume offset by a decrease in yields on earning assets. Interest expense for 2021 decreased by \$640,427, or 1.9 percent, compared to 2020 primarily due to a decrease in cost of interest-bearing liabilities offset by an increase in interest-bearing liabilities. The interest rate spread increased by 34 basis points to 2.60 percent in 2021 from 2.26 percent in 2020, primarily due to a more significant decrease in cost of interest bearing liabilities compared to the decrease in yields on interest-earning assets. The interest rate spread increased by 2 basis points to 2.26 percent in 2020 from 2.24 percent in 2019, primarily because of the more significant decrease in cost of interest-bearing liabilities compared to the decrease in yields on earning assets.

The Association offers different interest rate programs including fixed-rate products lasting for a set period up to the term of a loan, products indexed to Prime, LIBOR or the Farm Credit 1-Month SOFR, and a variety of adjustable interest rate products. The Association's control over interest rate margins resides in its ability to add a spread over cost of funds, the goal of which is to achieve an acceptable level of income to fund operations and generate a return for shareholders. Net interest margin for year end 2021 was 2.93 percent, versus 2.73 percent for the same period in 2020.

Noninterest income for 2021 increased by \$3,187,563, or 30.4 percent, compared to 2020, primarily due to higher patronage income received from the Bank when compared with 2020. The amount of patronage received from the Bank in 2021 was \$12,062,281 compared to \$8,846,017 in 2020. Noninterest income for 2020 increased by \$2,568,373, or 32.5 percent, compared to 2019, primarily due to higher patronage income received from the Bank. The amount of patronage received from the Bank in 2019 was \$6,660,101.

Provisions for loan losses decreased by \$2,076,886, or 267.9 percent, compared to 2020, primarily due to qualitative and environmental allowance adjustments, continuous improvement in credit quality and recoveries. Subsiding rate of COVID-19 infections, further progress on vaccinations, accommodative financial conditions and improvement in the stock market and unemployment rate led to a reduction in qualitative and environmental allowance factors.



Operating expenses consist primarily of salaries and employee benefits, purchased services, travel, occupancy and equipment expenses, advertising, public and member relations expenses and insurance fund premiums. Expenses for purchased services include administrative services, marketing, information systems, accounting and loan processing, audit and credit reviews and legal fees, among others. Net operating expense for 2021, 2020 and 2019 were \$30,723,504, \$24,210,275 and \$26,921,788, respectively, reflecting an increase of \$6,513,229 or 26.9 percent for 2021 and a decrease of \$2,711,513 or 10.1 percent for 2020.

The increase in operating expenses for 2021 was primarily driven by performance sharing plan appropriation, an increase in insurance fund premiums and a return to normal level of expenses as COVID restrictions were lifted during the year. The overall increase in operating expense is primarily offset by a decrease in purchased services. The decrease in operating expenses for 2020 was driven primarily by a decrease in salary and employee benefits due to internal staffing changes and reallocation of resources in 2020, and a decrease in travel, advertising, and public member relations expenses due to isolation initiatives resulting from COVID-19.

Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs resulted in the capitalization of \$5,415,103, \$4,140,186 and \$2,301,981 for 2021, 2020 and 2019, respectively, in origination fees, and \$3,757,409 \$2,959,293 and \$1,780,023 for 2021, 2020 and 2019, respectively, in origination costs, which will be amortized over the life of the loans as an adjustment to yield in net interest income.

For the year ended December 31, 2021, the Association's return on average assets was 2.1 percent, as compared to 1.9 percent and 1.8 percent for the years ended December 31, 2020 and 2019, respectively. For the year ended December 31, 2021, the Association's return on average members' equity was 12.0 percent, as compared to 9.4 percent and 8.0 percent for the years ended December 31, 2020 and 2019, respectively.

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

The Bank established a LIBOR Workgroup, with cross-functional representation from the finance, operations, credit and legal departments. The LIBOR Workgroup is progressing in implementing its transition plan to an alternative benchmark rate. The LIBOR Workgroup coordinates outreach to associations and with other Farm Credit System institutions, especially the Funding Corporation.

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

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

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

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$1,900,150,481, \$1,607,883,153 and \$1,278,483,867 as of December 31, 2021, 2020 and 2019, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 1.87 percent, 1.95 percent and 2.78 percent at December 31, 2021, 2020 and 2019, respectively. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a General Financing Agreement (GFA). The increase in note payable to the Bank and accrued interest payable since December 31, 2020, is directly correlated with an increase in the Association's loan volume. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$390,633,596, \$359,737,182 and \$353,619,223 at December 31, 2021, 2020 and 2019, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2021, was \$2,290,988,770 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, which is September 30, 2023, unless sooner terminated by the Bank upon the

occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The liquidity policy of the Association is to manage cash balances, to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued during 2022. As borrower payments are received, they are applied to the Association's note payable to the Bank.

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

### Capital Resources:

The Association's capital position remains strong, with total members' equity of \$386,336,087, \$364,029,009 and \$351,778,484 at December 31, 2021, 2020 and 2019, respectively.

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.

Risk-weighted:	Regulatory Minimums	Regulatory Minimums with Buffer	As of December 31, 2021
Common equity tier 1 ratio	4.50%	7.00%	16.13%
Tier 1 capital ratio	6.00%	8.50%	16.13%
Total capital ratio	8.00%	10.50%	16.45%
Permanent capital ratio	7.00%	7.00%	16.18%
Non-risk-weighted:			
Tier 1 leverage ratio	4.00%	5.00%	16.45%
UREE leverage ratio	1.50%	1.50%	17.46%

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, 2021, 2020 and 2019 was 16.2 percent, 16.9 percent and 19.8 percent, respectively.

The Association's members' equity includes accumulated other comprehensive loss (AOCL) related to certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multiemployer and, consequently, the liability for these benefits is included in other liabilities. The AOCL includes net actuarial losses and prior service costs/credits that have been included in liabilities, but have not yet been amortized into earnings.

In 2021, 2020 and 2019, the Association distributed patronage of \$14,649,904, \$26,907,765 and \$20,376,992, respectively.

In December 2021, the Board approved a \$24,154,277 patronage distribution to be paid in February 2022. See Note 11 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

### Economic Conditions:

The United States has been operating under a presidentially declared emergency since March 13, 2020, due to the Coronavirus Disease 2019 (also referred to as COVID-19). COVID-19 cases reported in the U.S. and within the district have fluctuated widely in recent months due to several factors, including the emergence of new variants and associated governmental responses. The Association continues during these unprecedented times to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. The Association is closely monitoring its loan portfolio overall and is particularly focused on sectors that may be pressured by COVID-19 and its related economic impacts, such as oil and gas, food processing,

timber and beef cattle. The Association has adjusted its portfolio monitoring and servicing practices. Capital levels remained strong to support any adversity or continuing loan demand.

The U.S. Bureau of Economic Analysis, in its December 22 release, estimated that real GDP increased at an annual rate of 2.3 percent in the third quarter, down from 6.7 percent in the second quarter of 2021. The deceleration of GDP growth occurred due to lower personal consumption expenditures, which were likely influenced by the ongoing COVID-19 pandemic. As of January 10, the Federal Reserve Bank of Atlanta estimates that real GDP growth was about 6.8 percent during the fourth quarter of 2021. The International Monetary Fund's latest World Economic Outlook released in October 2021 estimates that U.S. real GDP growth will be 5.2 percent during 2022.

Inflationary pressures persisted during the fourth quarter. The Consumer Price Index for All Urban Consumers increased by 6.8 percent for the 12 months ending November 2021, the largest 12-month increase since the period ending June 1982.

According to the U.S. Bureau of Labor Statistics, the U.S. unemployment rate declined to 3.9 percent in December, the lowest level observed since February 2020. As of November 2021, the unemployment rates in the Texas district states ranged from a low of 3.1 percent in Alabama to a high of 6.2 percent in New Mexico.

The West Texas Intermediate (WTI) crude oil futures price (front- month) increased to an average of about \$77 per barrel during the fourth quarter of 2021. This represents a significant increase from the \$43 per barrel average observed during the fourth quarter of 2020. In its December Short-Term Energy Outlook (STEO), the U.S. Energy Information Administration estimated that WTI prices would average about \$66 per barrel during 2022, down about \$2 per barrel from 2021.

The U.S. Department of Agriculture (USDA) estimates that net farm income reached about \$116.82 billion in 2021, an increase of about 23.2 percent year over year. The increase in net farm income is anticipated to have been driven by higher cash receipts for both crop and livestock products compared to the prior year. Increased cash receipts were partially offset by lower government payments and higher farm production expenses. Direct government payments, which more than doubled in 2020 to \$45.7 billion, fell to an estimated \$27.2 billion in 2021. Despite the significant year-over-year decline, direct government payments remain elevated relative to historical standards.

According to USDA's December 2021 World Agricultural Supply and Demand Estimates report, average farm prices for corn, soybeans and cotton are estimated to have experienced significant appreciation during the 2020/21 marketing year. This trend is anticipated to continue for all crops during the 2021/22 marketing year. Farm prices for major livestock and dairy products, including steers, broilers, eggs and milk, similarly experienced price appreciation during calendar year 2021. Although steer and milk prices are anticipated to continue to increase during 2022, barrow and gilt, broiler and egg prices are likely to decline somewhat in the upcoming year.

During 2022, agricultural producers may be negatively affected by several factors, including volatile commodity prices, export market disruptions, a recovering global economy, and weather-related challenges. The Association's loan portfolio is well-supported by industry diversification and conservative advance rates. Additionally, a high percentage of the Association's borrowers primarily rely on non-farm sources of income to repay their loans.

### **Significant Recent Accounting Pronouncements:**

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

### **Regulatory Matters:**

At December 31, 2021, the Association was not under written agreements with the Farm Credit Administration.

On January 5, 2021, the Farm Credit Administration posted an informational memorandum providing guidance to the Farm Credit System on managing challenges associated with COVID-19. The information memorandum provided supplements on flood insurance requirements, consumer financial protection, and electronic delivery of borrower right notices. On January 12, 2021, the Farm Credit Administration posted a supplement to its January 5, 2021, informational memorandum, which provided updated guidance to Farm Credit System institutions on issues related to COVID-19. The supplement covers regulatory capital requirements for Paycheck Protection Program Plans. The Association does not have any Paycheck Protection Program Loans. On January 28, 2021, the Farm Credit Administration posted a supplement to its January 5, 2021, informational memorandum, which provided updated guidance to Farm Credit System Institutions on issues related to COVID-19. The supplement discusses matters related to Association annual meetings and elections during the 2021 calendar year.



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

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

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

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

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

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

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

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

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

The Bank provides computer systems to support the critical operations of all district associations. In addition, each association has operating systems and facility-based systems that are not supported by the Bank. As disclosed in Note 14 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the Bank provides many services that the Association can utilize, such as administrative, marketing, information systems and accounting services. Additionally, the Bank bills district expenses to the Associations, such as the Farm Credit System Insurance Corporation insurance premiums.

### **Summary:**

Over the past 104 years, regardless of the state of the agricultural economy, your Association's Board and management, as well as the board of directors and management of the Bank, have been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support is critical to the future success of the Association.



## **Report of Independent Auditors**

To the Board of Directors of Lone Star, ACA

### ***Opinion***

We have audited the accompanying consolidated financial statements of Lone Star, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2021, 2020 and 2019, and the related consolidated statements of comprehensive income, changes in members' equity and cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2021, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

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

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

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

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

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

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

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

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

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

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

### ***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the information included in the 2021 Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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



Austin, Texas  
March 11, 2022

**LONE STAR, ACA**

**CONSOLIDATED BALANCE SHEET**

	December 31,		
	2021	2020	2019
<b><u>Assets</u></b>			
Cash	\$ 39,698	\$ 86,857	\$ 66,150
Loans	2,287,885,939	1,965,793,014	1,631,671,416
Less: allowance for credit losses	(7,335,544)	(8,044,487)	(7,129,083)
Net loans	2,280,550,395	1,957,748,527	1,624,542,333
Accrued interest receivable	10,679,191	8,991,130	9,223,030
Investment in and receivable from the Bank:			
Capital stock	34,514,975	28,508,380	25,036,060
Other	822,414	2,222,472	1,046,155
Premises and equipment	3,395,415	2,947,464	3,098,799
Other assets	3,727,848	3,244,489	3,416,805
Total assets	<u>\$ 2,333,729,936</u>	<u>\$ 2,003,749,319</u>	<u>\$ 1,666,429,332</u>
<b><u>Liabilities</u></b>			
Note payable to the Bank	\$ 1,900,150,481	\$ 1,607,883,153	\$ 1,278,483,867
Accrued interest payable	3,072,087	2,733,031	3,092,379
Drafts outstanding	83,927	47,422	44,338
Patronage dividends payable	24,154,277	14,759,557	19,423,559
Other liabilities	19,933,077	14,297,147	13,606,705
Total liabilities	<u>1,947,393,849</u>	<u>1,639,720,310</u>	<u>1,314,650,848</u>
<b><u>Members' Equity</u></b>			
Capital stock and participation certificates	5,929,630	5,841,380	5,737,095
Additional paid-in capital	91,343,553	91,343,553	91,343,553
Unallocated retained earnings	290,017,251	267,904,169	255,587,367
Accumulated other comprehensive loss	(954,347)	(1,060,093)	(889,531)
Total members' equity	<u>386,336,087</u>	<u>364,029,009</u>	<u>351,778,484</u>
Total liabilities and members' equity	<u>\$ 2,333,729,936</u>	<u>\$ 2,003,749,319</u>	<u>\$ 1,666,429,332</u>

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

*Lone Star, ACA — 2021 Annual Report*

**LONE STAR, ACA**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Year Ended December 31,		
	2021	2020	2019
<b><u>Interest Income</u></b>			
Loans	\$ 95,947,832	\$ 83,755,372	\$ 82,797,384
Total interest income	95,947,832	83,755,372	82,797,384
<b><u>Interest Expense</u></b>			
Note payable to the Bank	34,065,860	34,706,510	37,124,340
Advance conditional payments	373	150	4,111
Total interest expense	34,066,233	34,706,660	37,128,451
Net interest income	61,881,599	49,048,712	45,668,933
<b>PROVISION FOR CREDIT LOSSES</b>			
(Reversal of) provision for credit losses	(1,301,486)	775,400	(1,824,457)
Net interest income after (Reversal of) provision for credit losses	63,183,085	48,273,312	47,493,390
<b><u>Noninterest Income</u></b>			
Income from the Bank:			
Patronage income	12,062,281	8,846,017	6,660,101
Loan fees	1,031,649	905,747	461,900
Refunds from FCSIC	-	293,816	340,601
Financially related services income	4,928	5,920	6,967
Gain on other property owned, net	-	-	10,285
Gain on sale of premises and equipment, net	336,931	163,410	299,049
Other noninterest income	232,589	265,905	133,539
Total noninterest income	13,668,378	10,480,815	7,912,442
<b><u>Noninterest Expenses</u></b>			
Salaries and employee benefits	18,735,649	14,484,014	15,705,343
Directors' expense	541,933	408,525	609,112
Purchased services	1,803,603	2,103,096	2,975,051
Travel	830,958	736,888	1,080,176
Occupancy and equipment	2,361,840	1,620,619	1,597,135
Communications	402,248	508,405	377,384
Advertising	719,077	602,053	738,959
Public and member relations	989,988	905,631	1,069,556
Supervisory and exam expense	558,743	586,173	648,630
Insurance Fund premiums	2,613,875	1,292,428	1,032,015
Other components of net periodic postretirement benefit cost	194,631	205,629	278,624
Other noninterest expense	970,959	756,814	809,803
Total noninterest expenses	30,723,504	24,210,275	26,921,788
Income before income taxes	46,127,959	34,543,852	28,484,044
Benefit from income taxes	(29,746)	(16,712)	(53,251)
<b>NET INCOME</b>	46,157,705	34,560,564	28,537,295
Other comprehensive income:			
Change in postretirement benefit plans	105,746	(170,562)	(490,430)
Other comprehensive income, net of tax	105,746	(170,562)	(490,430)
<b>COMPREHENSIVE INCOME</b>	\$ 46,263,451	\$ 34,390,002	\$ 28,046,865

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

*Lone Star, ACA — 2021 Annual Report*



LONE STAR, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2018	\$ 5,911,140	\$ 91,343,553	\$ -	\$ 246,571,786	\$ (399,101)	\$ 343,427,378
Comprehensive income	-	-	-	28,537,295	(490,430)	28,046,865
Capital stock/participation certificates issued	694,940	-	-	-	-	694,940
Capital stock/participation certificates retired	(868,985)	-	-	-	-	(868,985)
Dividends declared	-	-	-	(19,521,714)	-	(19,521,714)
Balance at December 31, 2019	5,737,095	91,343,553	-	255,587,367	(889,531)	351,778,484
Comprehensive income	-	-	-	34,560,564	(170,562)	34,390,002
Capital stock/participation certificates issued	1,245,480	-	-	-	-	1,245,480
Capital stock/participation certificates retired	(1,141,195)	-	-	-	-	(1,141,195)
Dividends declared	-	-	-	(22,243,762)	-	(22,243,762)
Balance at December 31, 2020	5,841,380	91,343,553	-	267,904,169	(1,060,093)	364,029,009
Comprehensive income	-	-	-	46,157,705	105,746	46,263,451
Capital stock/participation certificates issued	1,182,610	-	-	-	-	1,182,610
Capital stock/participation certificates retired	(1,094,360)	-	-	-	-	(1,094,360)
Dividends declared	-	-	-	(24,044,623)	-	(24,044,623)
<b>Balance at December 31, 2021</b>	<b>\$ 5,929,630</b>	<b>\$ 91,343,553</b>	<b>\$ -</b>	<b>\$ 290,017,251</b>	<b>\$ (954,347)</b>	<b>\$ 386,336,087</b>

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

Lone Star, ACA — 2021 Annual Report

**LONE STAR, ACA**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Year Ended December 31,		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities:</b>			
Net income	\$ 46,157,705	\$ 34,560,564	\$ 28,537,295
Adjustments to reconcile net income to net cash provided by operating activities:			
(Reversal of) provision for credit losses	(1,301,486)	775,400	(1,824,457)
Net change in fair value of concessions granted	6,011,131	1,352,905	2,227,673
Gain on sale of other property owned, net	-	-	(10,285)
Depreciation	740,175	1,042,073	1,294,971
(Accretion) amortization of net (premiums) discounts in investments	(319,317)	(213,593)	(213,593)
Gain on sale of premises and equipment, net	(327,241)	(163,946)	(299,049)
(Increase) decrease in accrued interest receivable	(1,688,061)	231,900	(239,291)
Decrease (increase) in other receivables from the Bank	1,400,058	(1,176,317)	2,001,274
(Increase) decrease in other assets	(544,151)	114,839	(106,465)
Increase (decrease) in accrued interest payable	339,056	(359,348)	102,150
Increase in other liabilities	5,769,269	548,317	529,221
Net cash provided by operating activities	<u>56,237,138</u>	<u>36,712,794</u>	<u>31,999,444</u>
<b>Cash flows from investing activities:</b>			
Increase in loans, net	(326,574,648)	(334,707,223)	(73,624,443)
(Purchase) redemption of investment in the Bank	(6,006,595)	(3,472,320)	1,519,485
Purchases of premises and equipment	(1,296,001)	(708,752)	(919,823)
Proceeds from sales of premises and equipment	339,001	191,274	374,317
Proceeds from sales of other property owned	-	-	20,500
Net cash used in investing activities	<u>(333,538,243)</u>	<u>(338,697,021)</u>	<u>(72,629,964)</u>

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

*Lone Star, ACA — 2021 Annual Report*

**LONE STAR, ACA**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Year Ended December 31,		
	2021	2020	2019
<b>Cash flows from financing activities:</b>			
Net draws on (repayment of) note payable to the Bank	291,779,095	328,805,330	61,179,921
Increase (decrease) in drafts outstanding	36,505	3,084	(32,505)
Issuance of capital stock and participation certificates	1,182,610	1,245,480	694,940
Retirement of capital stock and participation certificates	(1,094,360)	(1,141,195)	(868,985)
Cash dividends paid	(14,649,904)	(26,907,765)	(20,376,992)
Net cash provided by financing activities	277,253,946	302,004,934	40,596,379
Net (decrease) increase in cash	(47,159)	20,707	(34,141)
Cash at the beginning of the year	86,857	66,150	100,291
Cash at the end of the year	\$ 39,698	\$ 86,857	\$ 66,150
<b>Supplemental schedule of noncash investing and financing activities:</b>			
Loans charged off	\$ 20,889	\$ 45,373	\$ 247,501
Dividends declared	24,044,623	22,243,762	19,521,714
Transfer of allowance for credit losses from reserve for unfunded commitments	27,591	28,437	6,150
<b>Supplemental cash flow information:</b>			
Cash paid during the year for:			
Interest	\$ 33,727,177	\$ 35,066,008	\$ 37,026,301

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

*Lone Star, ACA — 2021 Annual Report*

**LONE STAR, ACA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 — ORGANIZATION AND OPERATIONS:**

- A. Organization: Lone Star, ACA, including its wholly owned subsidiaries, Lone Star, PCA and Lone Star, FLCA (collectively called the “Association”), is a member-owned cooperative that provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Bell, Borden, Bosque, Bowie, Burnet, Camp, Cass, Cooke, Coryell, Dallas, Delta, Denton, Eastland, Ellis, Erath, Falls, Fannin, Fisher, Freestone, Grayson, Hamilton, Hill, Hood, Johnson, Kent, Lamar, Lampasas, Limestone, McLennan, Milam, Mitchell, Morris, Navarro, Nolan, Palo Pinto, Parker, Red River, Scurry, Shackelford, Somervell, Stephens, Tarrant, Taylor, Throckmorton, Titus, Williamson, Wise and Young 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, 2021, the System consisted of three Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

The Farm Credit Bank of Texas (Bank) and its related associations are collectively referred to as the “District.” The Bank provides funding to all associations within the district and is responsible for supervising certain activities of the district associations. At December 31, 2021, the District consisted of the Bank, one FLCA and 13 ACA parent companies, which have two wholly owned subsidiaries, a FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

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

The Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected borrower capital at par or stated value and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the FCSIC of providing assistance to certain troubled System 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 Association, into the Insurance Fund, based on its annual average adjusted outstanding insured debt until the monies in the Insurance Fund reach the “secure base amount,” which is defined in the Farm Credit Act as 2 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 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 provides a service facilitating the origination of residential loans that are funded by other lenders as well as acting as an intermediary in offering credit life insurance.

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

The lending and financial services offered by the Bank are described in Note 1, “Organization and Operations,” of the district’s annual report to stockholders.

## **NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

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

### **A. Recently Issued or Adopted Accounting Pronouncements:**

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance titled “Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The adoption of this guidance will not materially impact the Association’s financial condition or its results of operations.

In June 2016, the FASB issued guidance titled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those institutions qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association’s financial condition and its results of operations, with planned adoption for interim and reporting periods beginning after December 15, 2022.

### **B. Cash: Cash, as included in the financial statements, represents cash on hand and deposits at banks.**

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

The Association has recorded amounts related to the fair value of concessions granted for certain loans related to the breach of Association policies in 2016 and 2017. The concessions granted were either through the refinancing of a relationship or as a result of acceptance of rates and terms previously negotiated, which were more favorable than market terms and rates. The fair value of the concessions is based on the expected future cash flows under the new contractual terms, discounted at a market interest rate. Concession rates and market rates ranged from 1.25 percent to 5.25 percent and 3.70 percent to 6.95 percent, respectively. The fair value of the concessions are amortized into interest income over the contractual life of the related loans. The unpaid principal balance of loans with discounts for the fair value of concessions granted were \$27,632,569, \$48,436,516 and \$58,575,259, as of December 31, 2021, 2020 and 2019, respectively. The unaccreted fair value of concessions at December 31, 2021, 2020 and 2019 were \$4,168,373, \$10,179,504 and \$11,532,408, respectively. Amounts accreted into interest income for the years ended December 31, 2021, 2020 and 2019 were \$6,011,131, \$1,352,905 and \$2,227,674, respectively.

Loans acquired in a business combination are initially recognized at fair value, and therefore, no “carryover” of the allowance for credit losses is permitted. Those loans with evidence of credit quality deterioration at purchase are required to follow the authoritative accounting guidance on “Accounting for Certain Loans or Debt Securities Acquired in a Transfer.” This guidance addresses accounting for differences between contractual cash flows and cash flows expected to be collected from the initial investment in loans if those differences are attributable, at least in part, to credit quality. The initial fair values for these types of loans are determined by discounting both principal



and interest cash flows expected to be collected using an observable discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value. Subsequent decreases to expected principal cash flows will result in a charge to the provision for credit losses and a corresponding increase to allowance for credit losses. Subsequent increases in expected principal cash flows will result in recovery of any previously recorded allowance for credit losses, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield for any remaining increase. For variable rate loans, expected future cash flows were initially based on the rate in effect at acquisition; expected future cash flows are recalculated as rates change over the lives of the loans.

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

Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. Additionally, all loans over 180 days past due are placed in nonaccrual status. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for credit losses (if accrued in prior years). Loans are charged off at the time they are determined to be uncollectible.

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

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

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

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk-rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned (OAEM) and grows significantly as a loan moves to a substandard (viable) level. A substandard (nonviable) rating indicates that the probability of default is almost certain. The credit risk-rating methodology is a key component of the Association's allowance for credit losses evaluation, and is generally incorporated into its loan underwriting standards and internal lending limit. The allowance for the credit losses is maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio.

The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including agricultural economy, loan portfolio composition, collateral value, management's process for classification of risk of the loans within the portfolio and the portfolio's prior loss experience. The allowance for credit losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity will cause these various

judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the institutions' expectations and predictions of those circumstances. The allowance for credit losses process is supported by loan portfolio stress testing, which simulates stress in the current portfolio and the correlating allowance that would be needed.

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

The Association also provides lines of credit to customers to cover short-term and variable needs. As a result, the Association has unfunded commitments for which a separate reserve is maintained. The reserve is reported as a liability on the Association's consolidated balance sheet. The combined amounts of the allowance for loan losses and the reserve for unfunded commitments are referred to as the "allowance for credit losses."

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

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

- D. Capital Stock Investment in the Farm Credit Bank of Texas: The Association's investment in the Bank is in the form of Class A voting capital stock and allocated retained earnings. This investment is adjusted periodically based on the Association's proportional utilization of the Bank compared to other district associations. The Bank requires a minimum stock investment of 2 percent of the Association's average borrowing from the Bank. This investment is carried at cost plus allocated equities in the accompanying consolidated balance sheet. Estimating the fair value of the Association's investment in the Bank is not practicable, because the stock is not traded.

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.

- E. 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 loan losses. On at least an annual basis, revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains (losses) on other property owned in the statements of comprehensive income.
- F. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized.
- G. Advance Conditional Payments: The Association is authorized under the Act to accept advance payments from borrowers. To the extent that the borrower's access to such funds is restricted, the advance conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheet. Advance conditional payments are not insured. Interest is generally paid by the Association on such accounts at rates established by the Board of Directors.
- H. Employee Benefit Plans: Employees of the Association participate in either the district defined benefit retirement plan (DB plan) or the defined contribution plan (DC plan). All eligible employees may participate in the Farm Credit Benefits Alliance 401(k) plan. Also, the Association sponsors a nonqualified defined contribution 401(k) plan. The DB plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB plan is noncontributory and provides benefits based on salary and years of service. The "projected unit credit" actuarial method is used for financial reporting and funding purposes for the DB plan.

Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC plan direct the placement of their employers' contributions, 5.0 percent of eligible pay for the years ended December 31, 2021, 2020 and 2019, respectively, made on their behalf into various investment alternatives.

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. The Association recognized pension costs for the DC plan of \$625,465, \$551,959 and \$500,997 for the years ended December 31, 2021, 2020 and 2019, respectively. For the DB plan, the Association recognized pension costs of \$755,539, \$55,308 and \$464,696 for the years ended December 31, 2021, 2020 and 2019, respectively.

The Association also participates in the Farm Credit Benefits Alliance 401(k) plan, which requires the associations to match 100 percent of employee contributions up to 3.0 percent of eligible earnings and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The Association's contributions to the 401(k) plan were \$467,254, \$406,458 and \$434,193 for the years ended December 31, 2021, 2020 and 2019, respectively.

In addition to the DB plan, the DC plan and the Farm Credit Benefits Alliance 401(k) plans above, the Association sponsors a defined contribution supplemental retirement plan. This plan is a nonqualified 401(k) plan; therefore, the associated liabilities are included in the Association's consolidated balance sheet in other liabilities. The expenses of the nonqualified plan included in the Association's employee benefit costs were \$49,667, \$37,706 and \$878 for the years ended December 31, 2021, 2020 and 2019, respectively.

In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multiemployer and, consequently, the liability for these benefits is included in other liabilities. In 2004, the District discontinued its multiemployer health and welfare plan, which provided substantially all employees with health care, life insurance and postretirement benefits during their working lives and after retirement if they reach a normal retirement age and met the years of service criteria while working for the Association. At that time, the Association adopted a new plan to provide the same benefits to its retirees and employees. Under the new plan, the Association no longer participates in the joint and several liability with any other entities, which was intrinsic to the multiemployer plan. For employers providing these benefits outside of a multiemployer plan, FASB guidance, "Employers Accounting for Postretirement Benefits Other than Pensions," requires the liability for the contractual obligation of these benefits to be recognized as employees render the services necessary to earn the benefits. Accordingly, in December 2004, the Association recognized as an expense the unfunded liability for these postretirement benefits. Since that time, the net periodic expense for these benefits has been accrued in accordance with this guidance.

- I. **Income Taxes:** The ACA holding company conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are operated through the wholly owned FLCA subsidiary, which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through the wholly owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income tax. The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. Deferred taxes are provided on the Association's taxable income on the basis of a proportionate share of the tax effect of temporary differences not allocated in patronage form. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the Association's expected patronage program, which reduces taxable earnings.

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

The Association has not provided deferred income taxes on amounts allocated to the Association which relate to the Bank's post-1992 earnings to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the Bank's post-1992 unallocated earnings. The Bank currently has no

plans to distribute unallocated bank earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid at the Association level.

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

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

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

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

The fair value disclosures are presented in Note 15 to the consolidated financial statements, "Fair Value Measurements."

- L. Off-balance-sheet credit exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness. The Association's exposure in off-balance-sheet credit exposures is further disclosed in Note 16 to the consolidated financial statements, "Commitments and Contingencies."

### **NOTE 3 — INVESTMENTS:**

The Association may hold mission-related and other investments. The Farm Credit Administration approves mission-related programs and other mission-related investments. The following is a summary of mission-related and other investments that are held to maturity:

During 2010, the Association exchanged loans totaling \$59,626,146 for Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed mortgage-backed securities (AMBS). The loans were previously covered under the Long-Term Standby Commitment to Purchase Agreements with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions.

Effective January 26, 2012, the Bank purchased Lone Star's securitized Farmer Mac Agricultural Mortgage Backed Securities Investments. The purchase of \$35,459,508 included outstanding principal and accrued interest as of that date. There was no gain or loss recognized by the Association on this transaction. The Association will continue to service the underlying loans that were included in

this security. Also, for 2012 there was no effect to Lone Star's income based on this transaction as the Bank was able to pay the Association a patronage equivalent to the net interest that it would have earned on the AMBS investment. The amount of patronage received in 2021, 2020 and 2019 was \$114,337, \$125,448 and \$145,426, respectively. However, for future years, the Bank's payment of patronage is at the discretion of the Bank's board of directors. The remaining balance of the AMBS investment at December 31, 2021 was \$3,230,859.

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

A summary of loans as of December 31 follows:

Loan Type	2021		2020		2019	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 1,859,039,229	81.2%	\$ 1,563,661,606	79.4%	\$ 1,292,173,087	79.3%
Production and intermediate term	131,798,156	5.8%	107,672,020	5.5%	90,965,270	5.6%
Agribusiness:						
Loans to cooperatives	7,259,997	0.3%	13,604,762	0.7%	8,713,334	0.5%
Processing and marketing	143,460,471	6.3%	144,686,095	7.4%	143,710,232	8.8%
Farm-related business	55,455,694	2.4%	45,481,458	2.3%	21,554,430	1.3%
Communication	43,807,116	1.9%	42,755,132	2.2%	23,407,450	1.4%
Energy	24,713,083	1.1%	30,944,363	1.6%	36,294,005	2.2%
Water and wastewater	4,169,272	0.2%	5,050,538	0.3%	5,574,542	0.3%
Rural residential real estate	10,012,596	0.4%	11,937,040	0.6%	9,279,066	0.6%
International	8,170,325	0.4%	-	0.0%	-	0.0%
Total	\$ 2,287,885,939	100.0%	\$ 1,965,793,014	100.0%	\$ 1,631,671,416	100.0%

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding participations purchased and sold as of December 31, 2021:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 25,916,650	\$ 29,819,436	\$ 5,370,295	\$ -	\$ 31,286,945	\$ 29,819,436
Production and intermediate term	38,028,311	32,246,685	-	-	38,028,311	32,246,685
Agribusiness	183,564,727	5,626,971	-	-	183,564,727	5,626,971
Communication	43,807,116	-	-	-	43,807,116	-
Energy	24,713,083	-	-	-	24,713,083	-
Water and wastewater	4,169,272	-	-	-	4,169,272	-
Agricultural export finance	8,170,325	-	-	-	8,170,325	-
Total	\$ 328,369,484	\$ 67,693,092	\$ 5,370,295	\$ -	\$ 333,739,779	\$ 67,693,092

Loan volume by geographic location as of December 31, follows:

Region	2021	2020	2019
Eastern Region	27.3%	25.0%	25.6%
Southern Region	33.5%	32.0%	29.9%
Western Region	22.0%	23.7%	23.7%
Other	17.2%	19.3%	20.8%
Totals	100.0%	100.0%	100.0%

Eastern region is comprised of Denton, New Boston, Paris and Sherman offices. Southern region is comprised of Corsicana, Georgetown, Hillsboro, Lampasas and Waco offices. Western region is comprised of Abilene, Cleburne, Fort Worth, Stephenville, Sweetwater and Weatherford offices. Other is comprised of agribusiness, capital markets, participations purchased and special assets. Agribusiness is a specialized branch created in 2019 dedicated to meeting the lending needs of large, complex commercial-type eligible borrowers. The loans made from this branch are most commonly eligible via processing and marketing or farm-related business.

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. Though the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the



Association's lending activities is collateralized, and the Association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

Operation/Commodity	2021		2020		2019	
	Amount	%	Amount	%	Amount	%
Livestock, except dairy and poultry	\$ 1,421,949,173	62.1%	\$ 1,196,473,163	60.8%	\$ 1,003,134,570	61.6%
Hunting, trapping and game propagation	185,474,196	8.1%	143,682,955	7.3%	93,163,341	5.7%
Field crops except cash grains	114,315,843	5.0%	76,652,016	3.9%	63,962,071	3.9%
General farms, primarily crops	78,160,558	3.4%	83,547,569	4.3%	75,462,412	4.6%
Animal specialties	72,072,440	3.2%	52,405,270	2.7%	38,036,021	2.3%
Wholesale trade - nondurable goods	65,536,535	2.9%	72,383,554	3.7%	53,480,030	3.3%
Cash grains	61,916,873	2.7%	62,874,696	3.2%	59,133,566	3.6%
Timber	56,143,595	2.5%	59,419,543	3.0%	43,960,824	2.7%
Food and kindred products	36,891,769	1.6%	48,240,423	2.5%	46,063,017	2.8%
Communication	34,445,972	1.5%	34,783,099	1.8%	15,088,482	0.9%
Paper and allied products	27,321,779	1.2%	17,615,873	0.9%	18,206,830	1.1%
Electric services	26,263,831	1.1%	32,049,209	1.6%	40,866,388	2.5%
Lumber and wood products, except furniture	20,000,000	0.9%	-	0.0%	-	0.0%
Fruit and tree nuts	15,664,507	0.7%	9,750,555	0.5%	7,560,353	0.5%
Other	14,617,577	0.6%	17,491,286	0.9%	17,834,850	1.1%
Farm and garden machinery equipment	14,069,595	0.6%	15,685,132	0.8%	15,680,445	1.0%
Chemical and allied products	13,958,942	0.6%	13,493,695	0.7%	8,125,056	0.5%
Rural home loans	10,442,668	0.5%	12,547,978	0.6%	9,991,807	0.6%
Horticultural specialties	8,147,069	0.4%	-	0.0%	2,064,834	0.1%
Dairy farms	4,315,633	0.2%	8,063,150	0.4%	9,528,670	0.6%
Agricultural services	2,329,487	0.1%	5,638,320	0.3%	5,971,364	0.4%
Poultry and eggs	2,309,439	0.1%	2,291,901	0.1%	2,321,787	0.1%
General farms, primarily livestock	895,585	0.0%	495,800	0.0%	713,374	0.0%
Public warehousing and storage	473,739	0.0%	344	0.0%	44,540	0.0%
Real estate	149,107	0.0%	154,433	0.0%	1,197,845	0.1%
Fish hatcheries and preserves	20,027	0.0%	53,050	0.0%	78,939	0.0%
Total	<u>\$ 2,287,885,939</u>	<u>100.0%</u>	<u>\$ 1,965,793,014</u>	<u>100.0%</u>	<u>\$ 1,631,671,416</u>	<u>100.0%</u>

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

To mitigate the risk of loan losses, the Association has obtained loan guarantees in the form of standby commitments to purchase qualifying loans from Farmer Mac through an arrangement with the Bank. The agreements, which will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of defaults (typically four months past due), subject to certain conditions. At December 31, 2021, 2020 and 2019, loans totaling \$69,984,066, \$98,738 and \$211,466, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled \$59,467, \$438 and \$1,001 in 2021, 2020 and 2019, respectively, and are included in "other noninterest expense."

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

The following table presents information relating to impaired loans:

	2021	2020	2019
<b>Nonaccrual loans:</b>			
Current as to principal and interest	\$ 2,579,643	3,647,305	784,184
Past due	652,293	1,400,652	2,549,711
<b>Total nonaccrual loans</b>	<b>3,231,936</b>	<b>5,047,957</b>	<b>3,333,895</b>
<b>Impaired accrual loans:</b>			
Restructured accrual loans	101,648	111,159	1,149,573
Accrual loans 90 days or more past due	-	234,577	-
<b>Total impaired accrual loans</b>	<b>101,648</b>	<b>345,736</b>	<b>1,149,573</b>
<b>Total impaired loans</b>	<b>\$ 3,333,584</b>	<b>\$ 5,393,693</b>	<b>\$ 4,483,468</b>

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

	December 31, 2021	December 31, 2020	December 31, 2019
<b>Nonaccrual loans:</b>			
Real estate mortgage	\$ 2,754,743	\$ 4,369,064	\$ 3,295,585
Production and intermediate term	43,928	678,893	29,940
Energy	433,265	-	-
Rural residential real estate	-	-	8,370
Total nonaccrual loans	<b>3,231,936</b>	<b>5,047,957</b>	<b>3,333,895</b>
<b>Accruing restructured loans:</b>			
Real estate mortgage	101,648	111,159	101,701
Production and intermediate term	-	-	1,047,872
Total accruing restructured loans	<b>101,648</b>	<b>111,159</b>	<b>1,149,573</b>
<b>Accruing loans 90 days or more past due:</b>			
Real estate mortgage	-	234,577	-
Total accruing loans 90 days or more past due	<b>-</b>	<b>234,577</b>	<b>-</b>
<b>Total nonperforming loans</b>	<b>3,333,584</b>	<b>5,393,693</b>	<b>4,483,468</b>
<b>Total nonperforming assets</b>	<b>\$ 3,333,584</b>	<b>\$ 5,393,693</b>	<b>\$ 4,483,468</b>

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

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

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

	2021	2020	2019
Real estate mortgage			
Acceptable	99%	97%	96%
OAEM	1%	2%	3%
Substandard/doubtful	0%	1%	1%
	<u>100%</u>	<u>100%</u>	<u>100%</u>
Production and intermediate term			
Acceptable	100%	94%	91%
OAEM	0%	5%	8%
Substandard/doubtful	0%	1%	1%
	<u>100%</u>	<u>100%</u>	<u>100%</u>
Loans to cooperatives			
Acceptable	100%	100%	100%
OAEM	0%	0%	0%
Substandard/doubtful	0%	0%	0%
	<u>100%</u>	<u>100%</u>	<u>100%</u>
Processing and marketing			
Acceptable	96%	91%	93%
OAEM	0%	9%	7%
Substandard/doubtful	4%	0%	0%
	<u>100%</u>	<u>100%</u>	<u>100%</u>
Farm-related business			
Acceptable	100%	100%	100%
OAEM	0%	0%	0%
Substandard/doubtful	0%	0%	0%
	<u>100%</u>	<u>100%</u>	<u>100%</u>
Communication			
Acceptable	100%	100%	100%
OAEM	0%	0%	0%
Substandard/doubtful	0%	0%	0%
	<u>100%</u>	<u>100%</u>	<u>100%</u>
Energy			
Acceptable	98%	98%	89%
OAEM	0%	0%	0%
Substandard/doubtful	2%	2%	11%
	<u>100%</u>	<u>100%</u>	<u>100%</u>
Water and wastewater			
Acceptable	100%	100%	100%
OAEM	0%	0%	0%
Substandard/doubtful	0%	0%	0%
	<u>100%</u>	<u>100%</u>	<u>100%</u>
Rural residential real estate			
Acceptable	100%	99%	98%
OAEM	0%	0%	1%
Substandard/doubtful	0%	1%	1%
	<u>100%</u>	<u>100%</u>	<u>100%</u>
International			
Acceptable	100%	0%	0%
OAEM	0%	0%	0%
Substandard/doubtful	0%	0%	0%
	<u>100%</u>	<u>0%</u>	<u>0%</u>
Total Loans			
Acceptable	99%	97%	96%
OAEM	0%	3%	3%
Substandard/doubtful	1%	0%	1%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

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

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

December 31, 2021:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 1,781,685	\$ 254,381	\$ 2,036,066	\$ 1,866,270,924	\$ 1,868,306,990	\$ -
Production and intermediate term	43,928	-	43,928	132,484,449	132,528,377	-
Loans to cooperatives	-	-	-	7,263,969	7,263,969	-
Processing and marketing	-	-	-	143,937,399	143,937,399	-
Farm-related business	-	-	-	55,517,594	55,517,594	-
Communication	-	-	-	43,813,548	43,813,548	-
Energy	-	-	-	24,808,765	24,808,765	-
Water and wastewater	-	-	-	4,169,470	4,169,470	-
Rural residential real estate	8,659	-	8,659	10,026,912	10,035,571	-
International	-	-	-	8,183,447	8,183,447	-
<b>Total</b>	<b>\$ 1,834,272</b>	<b>\$ 254,381</b>	<b>\$ 2,088,653</b>	<b>\$ 2,296,476,477</b>	<b>\$ 2,298,565,130</b>	<b>\$ -</b>

December 31, 2020:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 2,667,091	\$ 914,223	\$ 3,581,314	\$ 1,568,115,978	\$ 1,571,697,292	\$ 234,577
Production and intermediate term	-	507,062	507,062	107,670,111	108,177,173	-
Loans to cooperatives	-	-	-	13,610,671	13,610,671	-
Processing and marketing	-	-	-	144,904,803	144,904,803	-
Farm-related business	-	-	-	45,563,153	45,563,153	-
Communication	-	-	-	42,757,285	42,757,285	-
Energy	-	-	-	31,058,687	31,058,687	-
Water and wastewater	-	-	-	5,051,261	5,051,261	-
Rural residential real estate	-	-	-	11,963,819	11,963,819	-
<b>Total</b>	<b>\$ 2,667,091</b>	<b>\$ 1,421,285</b>	<b>\$ 4,088,376</b>	<b>\$ 1,970,695,768</b>	<b>\$ 1,974,784,144</b>	<b>\$ 234,577</b>

December 31, 2019:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 6,102,762	\$ 993,465	\$ 7,096,227	\$ 1,293,326,351	\$ 1,300,422,578	\$ -
Production and intermediate term	270,694	29,940	300,634	91,189,762	91,490,396	-
Loans to cooperatives	-	-	-	8,721,392	8,721,392	-
Processing and marketing	-	-	-	143,952,511	143,952,511	-
Farm-related business	-	-	-	21,580,739	21,580,739	-
Communication	-	-	-	23,409,603	23,409,603	-
Energy	-	-	-	36,427,019	36,427,019	-
Water and wastewater	-	-	-	5,586,319	5,586,319	-
Rural residential real estate	19,491	-	19,491	9,284,398	9,303,889	-
<b>Total</b>	<b>\$ 6,392,947</b>	<b>\$ 1,023,405</b>	<b>\$ 7,416,352</b>	<b>\$ 1,633,478,094</b>	<b>\$ 1,640,894,446</b>	<b>\$ -</b>

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

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

As of December 31, 2021, the total recorded investment of troubled debt restructured loans was \$1,292,226, including \$1,190,578 classified as nonaccrual and \$101,648 classified as accrual, without any specific allowance for loan losses. There were no additional commitments to lend to borrowers whose loans have been modified in TDRs at December 31, 2021, 2020 or 2019.

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

December 31, 2020:	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	\$ 1,421,186	\$ 1,407,303
Total	\$ 1,421,186	\$ 1,407,303
December 31, 2019:	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	\$ 26,000	\$ 23,433
Total	\$ 26,000	\$ 23,433

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). There were no restructurings where principal was forgiven that required a charge-off, recorded at the modification date, for the year ended December 31, 2021.

The predominant form of concession granted for troubled debt restructuring includes an extension of term, principal or accrued interest reduction, interest rate decrease, or delay in the repayment of principal, among others. At times these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case the Association assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

At December 31, 2021, the Association had no payment defaults on loans that were restructured within the previous 12 months. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

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

	Loans Modified as TDRs		
	December 31, 2021	December 31, 2020	December 31, 2019
Troubled debt restructurings:			
Real estate mortgage	\$ 1,292,226	\$ 1,452,684	\$ 159,540
Production and intermediate term	-	-	1,048,029
Total	\$ 1,292,226	\$ 1,452,684	\$ 1,207,569
	TDRs in Nonaccrual Status*		
	December 31, 2021	December 31, 2020	December 31, 2019
Troubled debt restructurings:			
Real estate mortgage	\$ 1,190,578	\$ 1,341,525	\$ 57,839
Production and intermediate term	-	-	157
Total	\$ 1,190,578	\$ 1,341,525	\$ 57,996

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



Additional impaired loan information is as follows:

	Recorded Investment at 12/31/2021	Unpaid Principal Balance <sup>a</sup>	Related Allowance	Average Impaired Loans	Interest Income Recognized
<b>Impaired loans with a related allowance for credit losses:</b>					
Production and intermediate term	\$ -	\$ -	\$ -	\$ 39,229	\$ -
Energy and water/wastewater	433,265	433,265	100,554	413,178	115
Total	\$ 433,265	\$ 433,265	\$ 100,554	\$ 452,407	\$ 115
<b>Impaired loans with no related allowance for credit losses:</b>					
Real estate mortgage	\$ 2,856,391	\$ 2,857,730	\$ -	\$ 3,633,585	\$ 50,197
Production and intermediate term	43,928	55,786	-	183,601	-
Rural residential real estate	-	-	-	-	6,057
Total	\$ 2,900,319	\$ 2,913,516	\$ -	\$ 3,817,186	\$ 56,254
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 2,856,391	\$ 2,857,730	\$ -	\$ 3,633,585	\$ 50,197
Production and intermediate term	43,928	55,786	-	222,830	-
Energy and water/wastewater	433,265	433,265	100,554	413,178	115
Rural residential real estate	-	-	-	-	6,057
Total	\$ 3,333,584	\$ 3,346,781	\$ 100,554	\$ 4,269,593	\$ 56,369

	Recorded Investment at 12/31/2020	Unpaid Principal Balance <sup>a</sup>	Related Allowance	Average Impaired Loans	Interest Income Recognized
<b>Impaired loans with a related allowance for credit losses:</b>					
Real estate mortgage	\$ -	\$ -	\$ -	\$ 106,501	\$ 5,765
Production and intermediate term	104,758	104,758	41,551	939,475	44,086
Total	\$ 104,758	\$ 104,758	\$ 41,551	\$ 1,045,976	\$ 49,851
<b>Impaired loans with no related allowance for credit losses:</b>					
Real estate mortgage	\$ 4,714,800	\$ 4,810,160	\$ -	\$ 4,022,549	\$ 56,273
Production and intermediate term	574,135	597,368	-	208,516	1,129
Rural residential real estate	-	-	-	3,235	6,570
Total	\$ 5,288,935	\$ 5,407,528	\$ -	\$ 4,234,300	\$ 63,972
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 4,714,800	\$ 4,810,160	\$ -	\$ 4,129,050	\$ 62,038
Production and intermediate term	678,893	702,126	41,551	1,147,991	45,215
Rural residential real estate	-	-	-	3,235	6,570
Total	\$ 5,393,693	\$ 5,512,286	\$ 41,551	\$ 5,280,276	\$ 113,823

	Recorded Investment at 12/31/2019	Unpaid Principal Balance <sup>a</sup>	Related Allowance	Average Impaired Loans	Interest Income Recognized
<b>Impaired loans with a related allowance for credit losses:</b>					
Production and intermediate term	\$ 1,047,872	\$ 1,043,822	\$ 206,034	\$ 261,519	\$ 57,295
Total	\$ 1,047,872	\$ 1,043,822	\$ 206,034	\$ 261,519	\$ 57,295
<b>Impaired loans with no related allowance for credit losses:</b>					
Real estate mortgage	\$ 3,397,286	\$ 3,452,225	\$ -	\$ 3,341,265	\$ 16,171
Production and intermediate term	29,940	235,980	-	846,647	-
Rural residential real estate	8,370	8,566	-	64,694	-
Total	\$ 3,435,596	\$ 3,696,771	\$ -	\$ 4,252,606	\$ 16,171
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 3,397,286	\$ 3,452,225	\$ -	\$ 3,341,265	\$ 16,171
Production and intermediate term	1,077,812	1,279,802	206,034	1,108,166	57,295
Rural residential real estate	8,370	8,566	-	64,694	-
Total	\$ 4,483,468	\$ 4,740,593	\$ 206,034	\$ 4,514,125	\$ 73,466

<sup>a</sup>Unpaid principal balance represents the recorded principal balance of the loan.

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2021, 2020 and 2019.

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

	2021	2020	2019
Interest income that would have been recognized under the original terms	\$ 273,051	\$ 471,963	\$ 407,240
Less: interest income recognized	(56,369)	(113,823)	(73,466)
Foregone interest income	\$ 216,682	\$ 358,140	\$ 333,774

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Wastewater	Rural Residential Real Estate	International	Total
<b>Allowance for Credit Losses:</b>									
Balance at									
December 31, 2020	\$ 6,034,076	\$ 614,838	\$ 1,084,089	\$ 150,793	\$ 93,532	\$ 21,921	\$ 45,238	\$ -	\$ 8,044,487
Charge-offs	-	(20,889)	-	-	-	-	-	-	(20,889)
Recoveries	-	430,222	155,619	-	-	-	-	-	585,841
(Reversal) provision for credit losses	(481,654)	(571,157)	(283,197)	(27,804)	57,629	(7,591)	(15,556)	27,844	(1,301,486)
Transfer from reserve on unfunded commitments	206	15,303	14,058	(163)	708	7	-	(2,528)	27,591
Balance at									
December 31, 2021	<u>\$ 5,552,628</u>	<u>\$ 468,317</u>	<u>\$ 970,569</u>	<u>\$ 122,826</u>	<u>\$ 151,869</u>	<u>\$ 14,337</u>	<u>\$ 29,682</u>	<u>\$ 25,316</u>	<u>\$ 7,335,544</u>
Ending Balance:									
individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ 100,554	\$ -	\$ -	\$ -	\$ 100,554
Ending Balance:									
collectively evaluated for impairment	<u>\$ 5,552,628</u>	<u>\$ 468,317</u>	<u>\$ 970,569</u>	<u>\$ 122,826</u>	<u>\$ 51,315</u>	<u>\$ 14,337</u>	<u>\$ 29,682</u>	<u>\$ 25,316</u>	<u>\$ 7,234,990</u>
<b>Recorded Investment in Loans Outstanding:</b>									
Ending Balance at									
December 31, 2021	<u>\$ 1,868,306,990</u>	<u>\$ 132,528,377</u>	<u>\$ 206,718,962</u>	<u>\$ 43,813,548</u>	<u>\$ 24,808,765</u>	<u>\$ 4,169,470</u>	<u>\$ 10,035,571</u>	<u>\$ 8,183,447</u>	<u>\$ 2,298,565,130</u>
Ending balance for loans individually evaluated for impairment	<u>\$ 2,856,391</u>	<u>\$ 43,928</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 433,265</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,333,584</u>
Ending balance for loans collectively evaluated for impairment	<u>\$ 1,865,450,599</u>	<u>\$ 132,484,449</u>	<u>\$ 206,718,962</u>	<u>\$ 43,813,548</u>	<u>\$ 24,375,500</u>	<u>\$ 4,169,470</u>	<u>\$ 10,035,571</u>	<u>\$ 8,183,447</u>	<u>\$ 2,295,231,546</u>

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Wastewater	Rural Residential Real Estate	International	Total
<b>Allowance for Credit Losses:</b>									
Balance at									
December 31, 2019	\$ 4,713,632	\$ 969,201	\$ 835,460	\$ 20,870	\$ 355,277	\$ 96,512	\$ 138,131	\$ -	\$ 7,129,083
Charge-offs	-	(45,373)	-	-	-	-	-	-	(45,373)
Recoveries	53,860	102,480	600	-	-	-	-	-	156,940
(Reversal) provision for credit losses	1,265,830	(416,587)	233,047	129,739	(268,341)	(75,395)	(92,893)	-	775,400
Transfer from reserve on unfunded commitments	754	5,117	14,982	184	6,596	804	-	-	28,437
Balance at									
December 31, 2020	\$ 6,034,076	\$ 614,838	\$ 1,084,089	\$ 150,793	\$ 93,532	\$ 21,921	\$ 45,238	\$ -	\$ 8,044,487
Ending Balance: individually evaluated for impairment	\$ -	\$ 41,551	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 41,551
Ending Balance: collectively evaluated for impairment	\$ 6,034,076	\$ 573,287	\$ 1,084,089	\$ 150,793	\$ 93,532	\$ 21,921	\$ 45,238	\$ -	\$ 8,002,936
<b>Recorded Investment in Loans Outstanding:</b>									
Ending Balance at									
December 31, 2020	\$ 1,571,697,292	\$ 108,177,173	\$ 204,078,627	\$ 42,757,285	\$ 31,058,687	\$ 5,051,261	\$ 11,963,819	\$ -	\$ 1,974,784,144
Ending balance for loans individually evaluated for impairment	\$ 4,714,800	\$ 678,893	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,393,693
Ending balance for loans collectively evaluated for impairment	\$ 1,566,982,492	\$ 107,498,280	\$ 204,078,627	\$ 42,757,285	\$ 31,058,687	\$ 5,051,261	\$ 11,963,819	\$ -	\$ 1,969,390,451
	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Wastewater	Rural Residential Real Estate	Agricultural Export Finance	Total
<b>Allowance for Credit Losses:</b>									
Balance at									
December 31, 2018	\$ 6,497,578	\$ 1,457,800	\$ 350,450	\$ 12,783	\$ 23,764	\$ 200,444	\$ 102,611	\$ -	\$ 8,645,430
Charge-offs	(141,299)	(55,953)	-	-	-	-	(50,249)	-	(247,501)
Recoveries	57,104	377,597	28,991	-	-	-	85,769	-	549,461
(Reversal) provision for credit losses	(1,699,643)	(845,950)	495,046	8,624	321,398	(103,932)	-	-	(1,824,457)
Transfer from reserve on unfunded commitments	(108)	35,707	(39,027)	(537)	10,115	-	-	-	6,150
Balance at									
December 31, 2019	\$ 4,713,632	\$ 969,201	\$ 835,460	\$ 20,870	\$ 355,277	\$ 96,512	\$ 138,131	\$ -	\$ 7,129,083
Ending Balance: individually evaluated for impairment	\$ -	\$ 206,034	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 206,034
Ending Balance: collectively evaluated for impairment	\$ 4,713,632	\$ 763,167	\$ 835,460	\$ 20,870	\$ 355,277	\$ 96,512	\$ 138,131	\$ -	\$ 6,923,049
<b>Recorded Investment in Loans Outstanding:</b>									
Ending Balance at									
December 31, 2019	\$ 1,300,422,578	\$ 91,490,396	\$ 174,254,642	\$ 23,409,603	\$ 36,427,019	\$ 5,586,319	\$ 9,303,889	\$ -	\$ 1,640,894,446
Ending balance for loans individually evaluated for impairment	\$ 3,397,286	\$ 1,077,812	\$ -	\$ -	\$ -	\$ -	\$ 8,370	\$ -	\$ 4,483,468
Ending balance for loans collectively evaluated for impairment	\$ 1,297,025,292	\$ 90,412,584	\$ 174,254,642	\$ 23,409,603	\$ 36,427,019	\$ 5,586,319	\$ 9,295,519	\$ -	\$ 1,636,410,978

**NOTE 5 — LEASES:**

Adoption of the leasing standard impacted our previously reported results as follows:

	Balance Sheet Classification	As of December 31, 2021	As Previously Reported December 31, 2020	Lease Standard Adjustment	As Adopted January 1, 2019
Operating leases	Operating lease right-of-use asset-building	\$ 1,377,191	\$ 1,447,446	\$ 1,488,212	\$ 1,488,212
Total lease assets		<u>\$ 1,377,191</u>	<u>\$ 1,447,446</u>	<u>\$ 1,488,212</u>	<u>\$ 1,488,212</u>
Operating leases	Operating lease right-of-use liabilities-building	\$ 1,437,983	\$ 1,504,923	\$ 1,488,212	\$ 1,488,212
Total lease liabilities		<u>\$ 1,437,983</u>	<u>\$ 1,504,923</u>	<u>\$ 1,488,212</u>	<u>\$ 1,488,212</u>

The Association's operating leases consist of five office space leases and one consolidated copier lease.

The components of lease expense were as follows:

	Classification	2021	2020
Operating lease cost	Operating	\$ 603,761	\$ 619,198
Net lease cost		<u>\$ 603,761</u>	<u>\$ 619,198</u>

Other information related to leases was as follows:

	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	\$ 577,666	\$ 572,144

Lease term and discount rate are as follows:

	December 31, 2021
Weighted average remaining lease term in years	
Operating leases	2.8
Weighted average discount rate	
Operating leases	2.5 %

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

	Operating Leases
2022	\$ 577,915
2023	526,470
2024	279,702
2025	65,683
2026	36,971
Total lease payments	<u>\$ 1,486,741</u>

**NOTE 6 — INVESTMENT IN THE FARM CREDIT BANK OF TEXAS:**

The Association operates under a General Financing Agreement (GFA) with the Bank. The current GFA is effective through September 30, 2023. The investment in the Bank is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying balance sheet. The Association owned 8.4 percent, 7.9 percent and 7.5 percent of the issued stock of the Bank as of December 31, 2021, 2020 and 2019, respectively. As of those dates, the Bank's assets totaled \$33.1 billion, \$28.2 billion and \$25.7 billion and members' equity totaled \$2.0 billion, \$2.0 billion and \$1.8 billion. The Bank's earnings were \$254.6 million, \$251.1 million and \$203.0 million during 2021, 2020 and 2019.

**NOTE 7 — PREMISES AND EQUIPMENT:**

Premises and equipment consisted of the following at December 31:

	2021	2020	2019
Land and improvements	\$ 564,498	\$ 564,498	\$ 564,498
Building and improvements	3,644,802	3,313,619	3,096,627
Furniture and equipment	307,784	364,241	374,362
Computer equipment and software	857,862	790,131	687,621
Automobiles	1,998,832	1,621,528	1,954,009
	<u>7,373,778</u>	<u>6,654,017</u>	<u>6,677,117</u>
Accumulated depreciation	(3,978,363)	(3,706,553)	(3,578,318)
Total	<u>\$ 3,395,415</u>	<u>\$ 2,947,464</u>	<u>\$ 3,098,799</u>

The Association leases office space in Fort Worth, Sherman, Abilene, Weatherford and Georgetown. Lease expense was \$603,761, \$619,198 and \$561,343 for 2021, 2020 and 2019, respectively. All of the Association's leases are considered operating leases.

**NOTE 8 — OTHER PROPERTY OWNED, NET:**

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

	2021	2020	2019
Gain (loss) on sale, net	\$ -	\$ -	\$ 8,350
Operating income (expense), net	-	-	1,935
Net gain (loss) on other property owned	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,285</u>

**NOTE 9 — OTHER ASSETS AND OTHER LIABILITIES:**

Other assets comprised the following at December 31:

	2021	2020	2019
Accounts receivable (other than members)	\$ 805,687	\$ 794,203	\$ 728,268
Other assets	1,544,970	1,002,840	738,722
Right of use assets	1,377,191	1,447,446	1,949,815
Total	<u>\$ 3,727,848</u>	<u>\$ 3,244,489</u>	<u>\$ 3,416,805</u>

Other liabilities comprised the following at December 31:

	2021	2020	2019
Accounts payable	\$ 11,414,343	\$ 6,099,269	\$ 5,215,576
Lease liability	1,437,983	1,504,923	1,966,583
Accumulated postretirement obligation	5,506,947	5,518,104	5,262,192
Advanced conditional payments	411,211	23,149	84,440
Other liabilities	1,162,593	1,151,702	1,077,914
Total	<u>\$ 19,933,077</u>	<u>\$ 14,297,147</u>	<u>\$ 13,606,705</u>

## **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 GFA. 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 GFA, which is September 30, 2023, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The total amount and the weighted average interest rate of the Association's direct loan from the Bank at December 31, 2021, 2020 and 2019, was \$1,900,150,481 at 1.87 percent, \$1,607,883,153 at 1.95 percent and \$1,278,483,867 at 2.78 percent, respectively.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2021, 2020 and 2019, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2021 was \$2,290,988,770, as defined by the GFA.

In addition to borrowing limits, the GFA establishes certain covenants including limits on leases, investments, other debt and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the GFA associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits or repayment of indebtedness. As of and for the three years ended December 31, 2021, 2020 and 2019, the Association was not subject to remedies associated with the covenants in the GFA.

Other than the funding relationship with the Bank, the Association does not have other uninsured or insured debt.

## **NOTE 11 — MEMBERS' EQUITY:**

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

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 (for farm loans) or participation certificates (for rural home loans) is equal to 2 percent of the loan amount, up to a maximum amount of \$1,000. The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually by adding the aggregate par value of the capital stock or participation certificates to the principal amount of the related loan obligation. The capital stock or participation certificates are subject to a first lien by the Association. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding capital stock or participation certificates.

Association bylaws generally permit stock and participation certificates to be retired at the discretion of the Board of Directors and in accordance with the Association's capitalization plans, provided prescribed capital standards have been met. At December 31, 2021, the Association exceeded the prescribed standards. The Association does not anticipate any significant changes in capital that would affect the normal retirement of stock.

All classes of stock are transferable to other customers who are eligible to hold such class of stock as long as the Association meets the regulatory minimum capital requirements.

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

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

Within two years of repayment of a loan, the Association capital bylaws require the conversion of any borrower's outstanding Class B to Class A stock. Class A stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of Class A shares is made solely at the discretion of the Association's

Board. At December 31, 2021 and 2020, the Association had no shares of Class A stock. At December 31, 2019, the Association had 166 shares of Class A stock.

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

Dividends and patronage distributions may be paid on the capital stock and participation certificates of the Association, as the Board may determine by resolution, subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. The following dividends and patronage distributions were declared and paid in 2021, 2020 and 2019, respectively:

<b>Date Declared</b>	<b>Date Paid (to be Paid)</b>	<b>Patronage</b>
<b>December 2021</b>	<b>February 2022</b>	<b>\$ 24,154,277</b>
December 2020	March 2021	\$ 14,759,557
September 2020	October 2020	\$ 7,424,105
December 2019	March 2020	\$ 19,521,714

The Farm Credit Administration sets minimum regulatory capital requirements for banks and associations. Effective January 1, 2017, new regulatory capital requirements for banks and associations were adopted. These new requirements replaced the core surplus and total surplus requirements with common equity tier 1, tier 1 capital and total capital risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System banks with a tier 1 leverage ratio and an unallocated retained earnings (URE) and URE equivalents leverage ratio that are applicable to both the banks and associations. The permanent capital ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past. As of December 31, 2021, the Association is not prohibited from retiring stock or distributing earnings. Furthermore, the Association is unaware of any such prohibitions that may apply during 2022.

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

<b>Risk-weighted:</b>	<b>Regulatory Minimums</b>	<b>Regulatory Minimums with Buffer</b>	<b>As of December 31, 2021</b>
Common equity tier 1 ratio	4.50%	7.00%	16.13%
Tier 1 capital ratio	6.00%	8.50%	16.13%
Total capital ratio	8.00%	10.50%	16.45%
Permanent capital ratio	7.00%	7.00%	16.18%
<b>Non-risk-weighted:</b>			
Tier 1 leverage ratio	4.00%	5.00%	16.45%
UREE leverage ratio	1.50%	1.50%	17.46%

Risk-adjusted assets have been defined by FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes that generally have the impact of increasing risk-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 (referred to herein as PCR risk-adjusted assets) 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 revolvment, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and 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 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, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvment less certain regulatory required deductions including the amount of allocated investments in other System 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, 2021:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	\$ 234,503,400	\$ 234,503,400	\$ 234,503,400	\$ 234,503,400
Paid-in capital	91,343,553	91,343,553	91,343,553	91,343,553
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	5,932,088	5,932,088	5,932,088	5,932,088
Nonqualified allocated equities not subject to retirement	65,733,966	65,733,966	65,733,966	65,733,966
Allowance for loan losses and reserve for credit losses subject to certain limitations*	-	-	7,476,376	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(28,566,166)	(28,566,166)	(28,566,166)	(28,566,166)
	<u>\$ 368,946,841</u>	<u>\$ 368,946,841</u>	<u>\$ 376,423,217</u>	<u>\$ 368,946,841</u>
Denominator:				
Risk-adjusted assets excluding allowance	\$ 2,316,276,874	\$ 2,316,276,874	\$ 2,316,276,874	\$ 2,316,276,874
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(28,566,166)	(28,566,166)	(28,566,166)	(28,566,166)
Allowance for loan losses	-	-	-	(7,348,297)
	<u>\$ 2,287,710,708</u>	<u>\$ 2,287,710,708</u>	<u>\$ 2,287,710,708</u>	<u>\$ 2,280,362,411</u>

\*Capped at 1.25 percent of risk-adjusted assets

The components of the Association's non-risk-adjusted capital, based on 90-day average balances, were as follows at December 31, 2021:

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	\$ 234,503,400	\$ 234,503,400
Paid-in capital	91,343,553	91,343,553
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	5,932,088	-
Nonqualified allocated equities not subject to retirement	65,733,966	65,733,966
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(28,566,166)	(1,000)
	<u>\$ 368,946,841</u>	<u>\$ 391,579,919</u>
Denominator:		
Total Assets	\$ 2,279,562,303	\$ 2,279,562,303
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(37,232,824)	(37,232,824)
	<u>\$ 2,242,329,479</u>	<u>\$ 2,242,329,479</u>

The Association's Board 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 standard. The Plan monitors projected dividends, patronage distribution equity retirements and other actions that may decrease the Association's permanent capital, in addition to factors that must be considered in meeting the operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for loan losses to absorb potential loss within the loan and the lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities and other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the Board.

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

	2021	2020	2019
Class A stock	-	-	166
Class B stock	1,155,108	1,129,184	1,110,112
Participation certificates	30,818	39,092	37,141
Total	<u>1,185,926</u>	<u>1,168,276</u>	<u>1,147,419</u>

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

	2021	2020	2019
Accumulated other comprehensive loss at January 1	\$ (1,060,093)	\$ (889,531)	\$ (399,101)
Actuarial gains (losses)	62,970	(198,058)	(479,848)
Prior service (cost) credit	-	-	-
Amortization of prior service (credit) costs included in salaries and employee benefits	(26,514)	(26,514)	(26,514)
Amortization of actuarial loss (gain) included in salaries and employee benefits	69,290	54,010	15,932
Other comprehensive income (loss), net of tax	105,746	(170,562)	(490,430)
Accumulated other comprehensive loss at December 31	<u>\$ (954,347)</u>	<u>\$ (1,060,093)</u>	<u>\$ (889,531)</u>

**NOTE 12 — INCOME TAXES:**

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

	<b>2021</b>	<b>2020</b>	<b>2019</b>
Current:			
Federal	\$ -	\$ -	\$ -
Total current	-	-	-
Deferred:			
Federal	(29,746)	(16,712)	(53,251)
Total deferred	(29,746)	(16,712)	(53,251)
Total (benefit from) provision for income taxes	<u>\$ (29,746)</u>	<u>\$ (16,712)</u>	<u>\$ (53,251)</u>

The Association has a net operating loss carryforward of \$49,509,717 available to offset against future taxable income. Net operating losses incurred prior to 2018 total \$43,356,513 and began to expire in 2021. Net operating losses incurred after 2018 that total \$6,153,204 have an indefinite carryforward period.

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

	<b>2021</b>	<b>2020</b>	<b>2019</b>
Federal tax at statutory rate	\$ 9,686,872	\$ 7,254,210	\$ 5,981,649
Effect of nontaxable FLCA subsidiary	(9,156,467)	(7,087,080)	(6,081,214)
Change in valuation allowance	(75,628)	(183,842)	46,314
Prior Years NOL Carryback Expiration	36,866	-	-
Patronage deduction	(521,389)	-	-
(Benefit from) provision for income taxes	<u>\$ (29,746)</u>	<u>\$ (16,712)</u>	<u>\$ (53,251)</u>

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

	<b>2021</b>	<b>2020</b>	<b>2019</b>
<u>Deferred Tax Assets</u>			
Allowance for loan losses	\$ 83,845	\$ 116,588	\$ 124,519
Loss carryforwards	10,397,040	10,257,997	10,433,907
Gross deferred tax assets	<u>10,480,885</u>	<u>10,374,585</u>	<u>10,558,426</u>
Deferred tax asset valuation allowance	<u>(10,480,885)</u>	<u>(10,374,585)</u>	<u>(10,558,426)</u>
<u>Deferred Tax Liabilities</u>			
Other	(14,599)	(44,345)	(61,057)
Gross deferred tax liabilities	<u>(14,599)</u>	<u>(44,345)</u>	<u>(61,057)</u>
Net deferred tax asset (liability)	<u>\$ (14,599)</u>	<u>\$ (44,345)</u>	<u>\$ (61,057)</u>

The calculation of tax assets and liabilities involves various management estimates and assumptions as to the future taxable earnings. The expected future tax rates are based upon enacted tax laws.

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

The Association recorded valuation allowances of \$10,480,885, \$10,374,585 and \$10,558,426 during 2021, 2020 and 2019, respectively. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

#### NOTE 13 — EMPLOYEE BENEFIT PLANS:

**Employee Retirement Plans:** Employees of the Association participate in either the defined benefit retirement plan (DB plan) or the defined contributions plan (DC plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) plan. These plans are described more fully in section H of Note 2, “Summary of Significant Accounting Policies.” The structure of the district’s DB plan is characterized as multi-employer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (Bank and associations). No portion of any surplus assets is available to any participating employer. As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon district combination only. The Association records current contributions to the DB plan as an expense in the current year.

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

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

The Association elected to participate in a supplemental 401(k) plan. Contributions of \$49,667, \$37,706 and \$95,715 were made to this plan for the years ended December 31, 2021, 2020 and 2019, respectively. There were no payments made from the supplemental 401(k) plan to active employees during 2021, 2020 and 2019.

The DB plan is noncontributory and benefits are based on salary and years of service. The legal name of the plan is Farm Credit Bank of Texas Pension Plan; its employer identification number is 74-1110170. The DB plan is not subject to any contractual expiration dates. The DB plan’s funding policy is to fund current year benefits expected to be earned by covered employees plus an amount to improve the accumulated benefit obligation funded status by a percentage approved by the plan sponsor. The plan sponsor is the board of the Farm Credit Bank of Texas. The “projected unit credit” actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan, to facilitate reorganization and/or restructuring. The actuarial present value of vested and nonvested accumulated benefit obligation exceeded the net assets of the DB plan as of December 31, 2021.

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

- 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, 2021, 2020 and 2019:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Funded status of plan	70.5 %	62.6 %	66.2 %
Association's contribution	\$ 755,539	\$ 55,308	\$ 464,696
Percentage of association's contribution to total contributions	5.0 %	0.9 %	5.7 %

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

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

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

#### Retiree Welfare Benefit Plans

<b>Disclosure Information Related to Retirement Benefits</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Change in Accumulated Postretirement Benefit Obligation</b>			
Accumulated postretirement benefit obligation, beginning of year	\$ 5,518,104	\$ 5,262,192	\$ 4,691,921
Service cost	80,916	70,725	70,992
Interest cost	151,855	178,133	218,214
Plan participants' contributions	60,839	69,548	81,242
Actuarial (gain) loss	(62,970)	198,058	479,848
Benefits paid	(241,797)	(260,552)	(280,025)
Accumulated postretirement benefit obligation, end of year	\$ 5,506,947	\$ 5,518,104	\$ 5,262,192
<b>Change in Plan Assets</b>			
Plan assets at fair value, beginning of year	\$ -	\$ -	\$ -
Company contributions	180,958	191,004	198,783
Plan participants' contributions	60,839	69,548	81,242
Benefits paid	(241,797)	(260,552)	(280,025)
Plan assets at fair value, end of year	\$ -	\$ -	\$ -
Funded status of the plan	\$ (5,506,947)	\$ (5,518,104)	\$ (5,262,192)
<b>Amounts Recognized on the Balance Sheets</b>			
Other liabilities	\$ (5,506,947)	\$ (5,518,104)	\$ (5,262,192)
<b>Amounts Recognized in Accumulated Other Comprehensive Income</b>			
Net actuarial loss	\$ 1,095,933	\$ 1,228,193	\$ 1,084,145
Prior service credit	(141,586)	(168,100)	(194,614)
Total	\$ 954,347	\$ 1,060,093	\$ 889,531
<b>Weighted-Average Assumptions Used to Determine Obligations at Year End</b>			
Measurement date	12/31/2021	12/31/2020	12/31/2019
Discount rate	3.15%	2.80%	3.45%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	6.80%/6.00%	6.90%/6.40%	6.90%/6.40%
Health care cost trend rate assumed for next year - Rx	6.00%	6.40%	6.40%
Ultimate health care cost trend rate	4.50%	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2030	2029	2028

<b>Total Cost</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Service cost	\$ 80,916	\$ 70,725	\$ 70,992
Interest cost	151,855	178,133	218,214
Amortization of:			
Unrecognized prior service cost	(26,514)	(26,514)	(26,514)
Unrecognized net loss	69,290	54,010	15,932
Net postretirement benefit cost	\$ 275,547	\$ 276,354	\$ 278,624

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

Net actuarial (gain) loss	\$ (62,970)	\$ 198,058	\$ 479,848
Amortization of net actuarial gain	(69,290)	(54,010)	(15,932)
Amortization of prior service cost	26,514	26,514	26,514
Total recognized in other comprehensive income	\$ (105,746)	\$ 170,562	\$ 490,430

**AOCI Amounts Expected to be Amortized Into Expense in 2022**

Unrecognized prior service cost	(26,514)	(26,514)	(26,514)
Unrecognized net loss	57,820	69,290	54,010
Total	\$ 31,306	\$ 42,776	\$ 27,496

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

Measurement date	12/31/2021	12/31/2020	12/31/2019
Discount rate	2.80%	3.45%	4.75%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	6.60%/6.20%	6.90%/6.40%	7.30%/6.90%
Health care cost trend rate assumed for next year - Rx	6.60%	6.40%	6.90%
Ultimate health care cost trend rate	4.50%	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2029	2028	2027

**Expected Future Cash Flows**

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

Fiscal 2022	\$ 190,113	\$ 189,848	\$ 198,313
Fiscal 2023	206,801	203,828	211,928
Fiscal 2024	207,855	203,788	210,959
Fiscal 2025	209,060	204,693	1,084,698
Fiscal 2026	215,555	1,067,953	-
Fiscal 2027–2031	1,121,335	-	-

**Expected Contributions**

Fiscal 2022	\$ 190,113	\$ 189,848	\$ 198,313
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#### NOTE 14 — RELATED PARTY TRANSACTIONS:

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

Total loans to such persons at December 31, 2021, 2020 and 2019 for the Association amounted to \$12,504,934, \$11,548,610 and \$18,717,374, respectively. During 2021, 2020 and 2019, \$4,526,060, \$30,338,312 and \$29,339,991 of new loans were made, and repayments totaled \$3,569,736, \$37,507,076 and \$31,972,343, respectively. In the opinion of management, no such loans outstanding at December 31, 2021, 2020 and 2019 involved more than a normal risk of collectibility.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems and accounting services and allocations of expenses incurred by the Bank and passed through to the associations, such as FCSIC expenses. The Bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled \$82,660, \$103,471 and \$86,145 in 2021, 2020 and 2019, respectively.

The Association received patronage payments from the Bank totaling \$12,062,281, \$8,846,017 and \$6,660,101 during 2021, 2020 and 2019, respectively.

#### NOTE 15 — FAIR VALUE MEASUREMENTS:

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

	<u>Valuation Technique(s)</u>	<u>Input</u>
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Fair value of concessions granted	Discounted cash flow	Loan terms Market interest rates
Other interest bearing liabilities	Carrying value	Par/principal and appropriate interest yield

Assets and liabilities measured at fair value on a recurring basis at December 31, 2021, 2020 and 2019 only include nonqualified benefit trusts. This level 1 asset was \$205,962, \$228,487 and \$254,306 at December 31, 2021, 2020 and 2019, respectively.

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

December 31, 2021	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ 332,710	\$ 332,710
December 31, 2020				
	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ 62,947	\$ 62,947
December 31, 2019				
	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ 841,838	\$ 841,838

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

December 31, 2021					
Fair Value Measurement Using					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	\$ 39,698	\$ 39,698	\$ -	\$ -	\$ 39,698
Net loans	2,280,217,685	-	-	2,260,624,728	2,260,624,728
Total assets	<u>\$ 2,280,257,383</u>	<u>\$ 39,698</u>	<u>\$ -</u>	<u>\$ 2,260,624,728</u>	<u>\$ 2,260,664,426</u>
Liabilities:					
Note payable to Bank	\$ 1,900,150,481	\$ -	\$ -	\$ 1,883,823,282	\$ 1,883,823,282
Total liabilities	<u>\$ 1,900,150,481</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,883,823,282</u>	<u>\$ 1,883,823,282</u>
December 31, 2020					
Fair Value Measurement Using					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	\$ 86,857	\$ 86,857	\$ -	\$ -	\$ 86,857
Net loans	1,957,685,580	-	-	1,975,835,470	1,975,835,470
Total assets	<u>\$ 1,957,772,437</u>	<u>\$ 86,857</u>	<u>\$ -</u>	<u>\$ 1,975,835,470</u>	<u>\$ 1,975,922,327</u>
Liabilities:					
Note payable to Bank	\$ 1,607,883,153	\$ -	\$ -	\$ 1,622,789,992	\$ 1,622,789,992
Total liabilities	<u>\$ 1,607,883,153</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,622,789,992</u>	<u>\$ 1,622,789,992</u>
December 31, 2019					
Fair Value Measurement Using					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	\$ 66,150	\$ 66,150	\$ -	\$ -	\$ 66,150
Net loans	1,623,700,495	-	-	1,614,763,209	1,614,763,209
Total assets	<u>\$ 1,623,766,645</u>	<u>\$ 66,150</u>	<u>\$ -</u>	<u>\$ 1,614,763,209</u>	<u>\$ 1,614,829,359</u>
Liabilities:					
Note payable to Bank	\$ 1,278,483,867	\$ -	\$ -	\$ 1,271,446,746	\$ 1,271,446,746
Total liabilities	<u>\$ 1,278,483,867</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,271,446,746</u>	<u>\$ 1,271,446,746</u>



## 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:

### *Assets Held in Nonqualified Benefits Trusts*

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

### *Standby Letters of Credit*

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

### *Loans Evaluated for Impairment*

For certain loans evaluated for impairment under impairment guidance, the fair value is based upon the underlying collateral because the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management’s knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

### *Fair Value of Concessions Granted*

The Association has recorded amounts related to the fair value of concessions granted for certain loans related to the breach of Association policies in 2016 and 2017. These amounts are netted against the unpaid principal balance of the related loans similar to a discount. The concessions granted were either through the refinancing of a relationship or as a result of acceptance of rates and terms previously negotiated, which were more favorable than market terms and rates. The fair value of the concessions are based on the expected future cash flows under the new contractual terms, discounted at a market interest rate. The fair value of the concessions is amortized into interest income over the contractual life of the related loans. The unpaid principal balance of loans with discounts for the fair value of concessions granted were \$27,632,569, \$48,436,516 and \$58,575,259 as of December 31, 2021, 2020 and 2019, respectively. The unaccreted fair value of concessions at December 31, 2021, 2020 and 2019 was \$4,168,373, \$10,179,504 and \$11,532,408, respectively. Amounts accreted into interest income for the years ended December 31, 2021, 2020 and 2019 was \$6,011,131, \$1,352,905 and \$2,227,674, respectively.

### *Other Property Owned*

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

## **NOTE 16 — COMMITMENTS AND CONTINGENCIES:**

In addition to those commitments and contingencies discussed in Note 2, “Summary of Significant Accounting Policies,” the Association has various outstanding commitments and contingent liabilities, including the possibility of actions against the Association in which claims for monetary damages may be asserted. Upon the basis of current information, management and legal counsel are of the opinion that the ultimate liability, if any, resulting from lawsuits or other pending actions are unknown at this time.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees,

elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2021, \$197,994,487 of commitments and \$1,141,490 of commercial letters of credit were outstanding.

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

#### **NOTE 17 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED):**

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

	2021				
	First	Second	Third	Fourth	Total
Net interest income	\$ 13,340	\$ 14,419	\$ 18,114	\$ 16,009	\$ 61,882
Reversal of loan losses	103	618	417	163	1,301
Noninterest income (expense), net	(3,312)	(3,667)	(4,737)	(5,309)	(17,025)
Net income	\$ 10,131	\$ 11,370	\$ 13,794	\$ 10,863	\$ 46,158

	2020				
	First	Second	Third	Fourth	Total
Net interest income	\$ 11,733	\$ 11,978	\$ 12,195	\$ 13,143	\$ 49,049
(Provision for) reversal of loan losses	(568)	(240)	148	(115)	(775)
Noninterest income (expense), net	(3,783)	(3,523)	(3,364)	(3,043)	(13,713)
Net income	\$ 7,382	\$ 8,215	\$ 8,979	\$ 9,985	\$ 34,561

	2019				
	First	Second	Third	Fourth	Total
Net interest income	\$ 11,656	\$ 11,479	\$ 11,451	\$ 11,083	\$ 45,669
(Provision for) reversal of loan losses	(129)	1,760	214	(21)	1,824
Noninterest income (expense), net	(5,109)	(5,122)	(4,237)	(4,488)	(18,956)
Net income	\$ 6,418	\$ 8,117	\$ 7,428	\$ 6,574	\$ 28,537

#### **NOTE 18 — SUBSEQUENT EVENTS:**

The Association has evaluated subsequent events through March 11, 2022, which is the date the financial statements were issued or available to be issued.

There were no subsequent events requiring disclosure as of March 11, 2022.

## **DISCLOSURE INFORMATION AND INDEX**

(Unaudited)

*Disclosures Required by Farm Credit Administration Regulations*

### **DESCRIPTION OF BUSINESS**

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

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

### **DESCRIPTION OF PROPERTY**

Lone Star, ACA serves its 48-county territory through its main administrative and lending office at 1612 Summit Avenue, Suite 300, Fort Worth, TX 76102. Additionally, there are 15 branch lending offices located throughout the territory. The Association owns the office buildings in Paris, New Boston, Denton, Cleburne, Stephenville, Sweetwater, Lampasas, Corsicana, Hillsboro and Waco. The Association leases office space in Fort Worth, Sherman, Abilene, Weatherford and Georgetown.

### **LEGAL PROCEEDINGS**

In the ordinary course of business, the Association is involved in various legal proceedings. The Association has various outstanding commitments and contingent liabilities, including the possibility of actions against the Association in which claims for monetary damages may be asserted. Upon the basis of current information, management and legal counsel are of the opinion that the ultimate liability, if any, resulting from lawsuits or other pending actions are unknown at this time.

### **DESCRIPTION OF CAPITAL STRUCTURE**

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

### **DESCRIPTION OF LIABILITIES**

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

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

### **RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS**

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

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

The Association's annual and quarterly stockholder reports are also available free of charge, upon request. The annual and quarterly stockholder reports are available approximately 75 days after year end and 40 days after quarter end, respectively, and can be obtained by writing to Lone Star, ACA, 1612 Summit Avenue, Suite 300, Fort Worth, TX 76102 or calling (817) 332-6565. The annual and

quarterly stockholder reports for the Association are also available on its website at [www.lonestaragcredit.com](http://www.lonestaragcredit.com). Copies of the reports can also be requested by emailing [ShareholderRelations@lonestaragcredit.com](mailto:ShareholderRelations@lonestaragcredit.com).

## SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2021, required to be disclosed, is incorporated herein by reference to the “Five-Year Summary of Selected Consolidated Financial Data” included in this annual report to stockholders.

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

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

## DIRECTORS AND SENIOR OFFICERS

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

NAME	POSITION	DATE ELECTED/ EMPLOYED	TERM EXPIRES
Brent Neuhaus	Chairman	2016	2023
Asa Langford	Vice Chairman	2018	2024
Bert Pruett	Director	1984	2023
Chad Lee	Director-Elected Outside Director	2011	2024
Cody Hughes	Director	2018	2024
David Conrad	Director-Elected Outside Director	2014	2023
David Harris	Director	2001	2022
Josh Drews	Director	2020	2023
Matt Carter	Director	2020	2023
Robert Eubanks Sr.	Director	2019	2022
Stacey Schumacher	Director	2021	2024
Tina Murphy	Director	2019	2022
Joe H. Hayman	Chief Executive Officer	2020	-
Nick Acosta	Chief Financial Officer	2011	-
Jim Bob Reynolds	Chief Credit Officer	2010	-
Matt James	Chief Lending Officer	1998	-
Jeff Royal	Chief Collateral Risk Officer	1999	-
Hans Pettit	Chief Risk Officer	2021	-
Justin Renard	Chief Information Officer	2021	-
Jeff Moder	Chief Marketing & Communications Officer	2021	-

A brief statement of the business and employment background of each director and senior officer as of December 31, 2021, is provided for informational purposes. As part of normal course of business, and in accordance with the Association’s Standards of Conduct Policy, directors may do business with members and employees of the Association.

**Brent Neuhaus** was appointed to the Board in 2016 and elected in 2017. Mr. Neuhaus currently serves as the Association’s Chairman and is a member of the Governance Committee. He is a native of Waco, Texas, and raises Angus cattle in McLennan County, Texas. Mr. Neuhaus is a Director and Corporate Inventory Manager at United Ag and Turf, which operates John Deere dealerships in Texas, Oklahoma and Arkansas. He is president and manager of TGBTG Property, LLC and JORE, LLC. He is also a member of ERE Property, LLC and HILLRE, LLC, which are involved in real estate. Mr. Neuhaus has ownership interest and is the trustee of Neuhaus Trust Partnership, which owns farmland, commercial real estate and other business interests. He is a director and shareholder of Alliance Bank Central Texas, and past chairman of the board for the Heart O’ Texas Fair & Rodeo. Mr. Neuhaus is married to Kim, and they attend First Woodway Baptist Church.

**Asa G. Langford** was elected to the Association’s Board in 2018 and currently serves as the Association’s Vice Chairman as well as serves on the Audit Committee. Mr. Langford was born, and currently resides, in Lampasas, Texas. Mr. Langford is a self-employed rancher whose operation includes a cow-calf herd, stocker cattle, small grains and hay. He and his brother own an order-buying company, and he also is part owner of a feedlot. Ranching has been his principal occupation for the past six years, and he has been

involved in his family's ranch operation for 13 years. He is a graduate of Lampasas High School and earned a Bachelor of Science degree in Agricultural Economics from Texas A&M University. Mr. Langford is a member of the Lampasas County Farm Bureau and the Texas and Southwestern Cattle Raisers Association. He is a member and deacon of School Creek Baptist Church, and he and his wife, Jonna, have a son and a daughter.

**Bert Pruett** was elected to the Board in 1984 and currently serves on the Audit Committee. Mr. Pruett lives near Slidell in northwest Denton County, and maintains a cow-calf operation and raises hay. Mr. Pruett serves as the treasurer of the Greenwood-Slidell Volunteer Fire Department and chairman of the deacons of the First Baptist Church in Slidell, Texas.

**Chad Lee** was elected to the Board in 2011 as a Director-Elected Director. He serves on the Governance Committee and is the Chairman of the Compensation Committee. Mr. Lee is a private practice attorney with an emphasis on criminal defense, employment and various agriculture issues, including contracts, oil and gas leasing and real property disputes. Mr. Lee maintains an operation of commercial cattle, wheat and hay, serves as a director on the Farm Credit Council, is a committee member for the Fort Worth Stock Show and Texas and Southwestern Cattle Raisers, and is a director at Operation Orphans, a nonprofit benefiting foster children.

**Cody Hughes** was elected to the Board in 2018 and serves on the Audit Committee. Mr. Hughes was raised on a family farm in Roscoe, Texas and is a fifth-generation farmer who farms cotton and wheat in Nolan, Mitchell and Fisher counties. Mr. Hughes farms individually and through a partnership with his father, CWH Farms. He and his wife, Amy, and two children reside on their farm south of Roscoe, where they also raise show steers and maintain a cow-calf operation. Before returning to the farm full time, Mr. Hughes graduated from Tarleton State University with a degree in Agricultural Services and Development. After college, he was employed by the United States Department of Agriculture, Farm Service Agency for seven years. He served as county executive director of Victoria, Gaines and Jones counties from the years 2003-2005, 2005-2007 and 2007-2009, respectively. Mr. Hughes currently serves as a member of the National Cotton Council, Nolan County Farm Bureau, Plains Cotton Cooperative Association, Rolling Plains Cotton Growers and Central Rolling Plains Co-op Gin. He is a supporter of the Highland FFA and Nolan County Junior Livestock Show.

**David W. Conrad** was elected to Texas Land Bank's Board in 2005 as a Director-Elected Director and has served on the Association's Board since January 1, 2014 as a result of the merger. Mr. Conrad serves as the Chairman of the Audit Committee and resides in Round Rock, Texas, where he is a Certified Public Accountant. He is a member of the Texas Society of CPAs. Mr. Conrad was previously employed by the Farm Credit Bank of Texas from 1982 to 1990, where he served as internal auditor and director of Association Financial Operations.

**David Harris** was elected to the Board in 2001 and serves as Chairman of the Governance Committee. Mr. Harris lives in Johnson County and owns property in Somervell, Johnson and Bosque counties. Mr. Harris is president of Bob Harris Oil Company, which is involved in retail gasoline marketing, ranching (cow-calf), real estate development, and sand and gravel. He is also the president of Harris Riverbend Farms, a purebred and commercial cow-calf operation; a partner in Mansfield Joint Venture, which is involved in warehouse development; the managing partner of Alvarado Joint Venture, which is involved in real estate development; a partner in Deli Partners, a deli and fast-food operation; the managing partner in Brazos Aggregates, a sand and gravel operation; and a director of Cleburne Economic Development Board. Mr. Harris serves on the Somervell County Livestock and Forage Performance Committee. He has previously served as president of the Premier Santa Gertrudis Association and vice president of Marketing for Santa Gertrudis Breeders International.

**Josh Drews** was elected to the Board in 2020 and serves on the Compensation and Governance Committees. He was born in the Marlin, Texas area in Falls County where he currently resides. Josh is a self-employed farmer and rancher whose operation includes a registered and commercial Brangus cow herd, a stocker operation, and a row crop farming operation that includes corn, milo and cotton. Farming and ranching have been Mr. Drews' primary occupation for the past five years, and he has worked his farm and ranch for 19 years. He is a 2001 graduate of Texas A&M University with a Bachelor of Science in Agricultural Economics. Mr. Drews serves on the Falls County Youth Fair Board of Directors and the Falls County Go-Texan committee. He is married and has four kids who are involved in 4-H, FFA and the operation of the farm when they are not in school.

**Matt Carter** was elected to the Board in 2020 and serves on the Audit Committee. Born in Dalhart, Texas, where his family continues to reside and operate the family ranching and farming interest. He graduated from Tascosa High School in Amarillo, Texas, earned a Bachelor of Science in Finance from Texas Christian University, and holds an MBA from the University of Texas, Arlington. In 2021, Mr. Carter resigned his post as vice president for Fine Line LP, his occupation since 2008, to join the team at the Fort Worth Stock Show & Rodeo as senior executive vice president. Prior to joining the Stock Show staff, he served in a volunteer capacity at FWSSR for many years and continues to serve on the Executive Committee. In addition to his interest in his family's operation in Dalhart, Mr. Carter owns and operates acreage in Jack County, where he and his family manage their cow-calf operation. Mr. Carter is also active in several other business interests providing guidance through board and direct participation. He and his wife were married in 2002 at

First United Methodist Church, where they remain members, and have two teenage sons. In addition to other philanthropic endeavors, he is the head coach for the 4-H Shooting Sports team, which he and his wife initiated, at their boys' school.

**Robert Eubanks Sr.** was elected to the Board in July 2019 and serves on the Compensation Committee. Mr. Eubanks resides near Teague, Texas. He is a third-generation rancher and began purchasing land as a teen to continue to grow the family business. He has been self-employed as a rancher all his life. Today, he serves as partner and co-manager of Beene & Eubanks Cattle, LLC and oversees day-to-day operations of the business which includes cows, calves and yearlings. He is married to Melanie, another third-generation rancher. Mr. Eubanks also works with his wife and his father-in-law at Pecan Valley Ranch. The two operations encompass over 9,500 acres in Freestone and Limestone counties and run approximately 1,550 mother cows.

**Stacey Schumacher** was elected to the Board in 2021 and serves on the Compensation Committee. Mrs. Schumacher is a resident of Era, Texas. She and her husband Scott maintain a commercial Angus-influenced cow-calf operation as well as a registered Angus herd. Along with retaining ownership of their calves and selling them on the grid, they also sell corn-finished Angus beef directly to consumers. The Schumachers operate S&S Enterprises, a commercial fertilizer application company. The Schumachers run stocker calves on wheat pasture and farm corn, wheat, milo and sesame. Mrs. Schumacher also maintains a large herd of registered Texas Longhorn cattle and has served on the governing board as well as several committees for the Texas Longhorn Breeders Association. She also served as president of the Texas Longhorn Heritage Foundation. She is the founder and executive director of the Texas Coalition for Animal Protection. Originally from Sulphur Springs, Stacey earned a bachelor's degree from Texas A&M University-Commerce and a master's degree in liberal arts from Southern Methodist University. Mrs. Schumacher and her husband have two children.

**Tina Murphy** was elected to the Board in July 2019 and serves on the Compensation and Governance Committees. Mrs. Murphy lives and operates in DeKalb, Bowie County, Texas, and has been involved in ranching most of her life. It has been her principal occupation for the past five years. Concurrently, she is also employed at a veterinary supply company in which her husband is part owner. In addition, she is an independent contractor for a third-party verification company for beef operations. Prior to working at the vet supply business, she was a cattle buyer for an all-natural branded beef company for 11 years. She earned a Bachelor of Science degree in Biology from Ouachita Baptist University and a master of science degree in Animal Science from Texas A&M University. Mrs. Murphy is involved in community organizations such as DeKalb K.A.R.E.S., the Booster Club and her church. She is married to David Murphy, and they have a son and three daughters.

**Joe H. Hayman** has been with the Farm Credit System since 1994. He has worked in various capacities within the System, formerly serving as the Chief Operating Officer at Texas AgFinance, FCS, and most recently as Chief Executive Officer at Southern AgCredit, ACA, for 12 years, until joining the Association in February 2020. He is a graduate of Texas A&M University with a degree in Agricultural Economics and is a past member of the TAMU College of Agriculture and Life Sciences Development Council, the Farm Credit System President's Planning Committee (PPC) and the PPC's Business Practices Committee. He has previously served on the Dixie National Livestock Show & Rodeo Sale of Champions Committee, the Thad Cochran Agricultural Leadership Council Board and the Mississippi 4-H Foundation Board.

**Nicholas (Nick) Acosta** joined the Association in January 2011 and has held various accounting roles within the Association. He became Controller in January 2018 and was promoted to Chief Financial Officer of the Association in 2020. Mr. Acosta, originally from El Paso, Texas, earned his Bachelor of Science degree in Accounting from LeTourneau University. He is a Certified Public Accountant and has held this certification since 2013.

**Jim Bob Reynolds** joined the Association in September 2010 as the Senior Vice President of Commercial Credit and assumed the role of Chief Credit Officer for the Association in 2012. Mr. Reynolds is a native of Dalhart, Texas, where he grew up on his family's farming/cattle operation. He earned his Bachelor of Science degree in Ag Economics from Texas Tech University and his Master of Business Administration degree from the University of Texas at San Antonio.

**Matt James** joined the Association in August 1998 and has held various roles within the lending and credit departments. He started his career with the Association as a loan officer in the Stephenville branch, later becoming the credit office president. In 2011, Matt transitioned into the role of regional president and later in 2018 became the senior vice president of Commercial Credit. In 2020, Matt was promoted to Chief Lending Officer. Originally from Wills Point, Texas, he grew up on a small farm where his family raised Brangus cattle and he was active in the FFA. Matt earned his Bachelor of Science Degree in Animal Industries from Tarleton State University.

**Jeff Royal** has worked in the field of appraisal for over 35 years, first as an appraiser in Dallas, Texas, and joining the Farm Credit System in 1998. During his tenure at Lone Star Ag Credit, Jeff has overseen all appraisal operations and assumed the role of Chief Collateral Risk Officer in 2020. A native of Menard, Texas, Jeff grew up on his family's cattle, sheep and goat ranch. He earned both a Bachelor of Science degree in Agricultural Economics and Master of Agriculture in Land Economics and Real Estate from Texas A&M University. He enjoys being involved with the Fort Worth Stock Show as a superintendent of the junior lamb and breeding sheep shows.

**Hans C. Pettit** joined the Association in April 2021 as the Chief Risk Officer. Prior to joining the Association, Mr. Pettit served as a consultant to the Farm Credit Industry for 10+ years assisting associations with their risk management, growth strategies and board development. His previous career experience includes 13 years with HORNE LLP in Ridgeland, Miss., where he served as a partner in its assurance and advisory practice; six years with Colonial Bank in Montgomery, Ala., where he served as their Senior Vice President, Director of External Reporting and Accounting Policy; and five years with Ernst & Young LLP in Birmingham, Ala. and San Antonio, Texas where he served as a manager in their assurance and advisory practice. Mr. Pettit also serves on the board of Excel by 5, Inc., a Mississippi nonprofit focused on early childhood education. Originally from Montgomery, Ala., Hans earned his Bachelor of Science degree in Accounting from Auburn University at Montgomery and his Master of Accountancy degree from the University of Alabama.

**Justin Renard** joined the Association in April 2021 as the Chief Information Officer. Mr. Renard has more than 23 years of experience in the Farm Credit System since starting his career at the FCBT and has overseen the IT areas of data, infrastructure, support, security, compliance and development. He earned his Bachelor of Science degree in Agricultural Economics from Texas A&M University. He has previously served on various Farm Credit System workgroups and committees, and his family has been involved in production agriculture in South Texas for more than 75 years.

**Jeff Moder** joined the Association in November 2021 as Chief Marketing & Communications Officer. He has more than 30 years of strategic marketing and communications experience across a variety of industries. Before joining the Association, Jeff worked for seven years in Farm Credit marketing and communications within Texas, and prior to that served for 10 years as director of Strategic Communications for an eight-hospital health system in Memphis, Tenn. He has led national media relations for a Fortune 500 aerospace and defense company and has also managed internal and external communications efforts for a multibillion-dollar property and casualty insurance company. He is a veteran of the United States Air Force and serves on the board of the Texas Chapter of the Farmer Veteran Coalition. Jeff received a bachelor's degree in Journalism from the University of Georgia's Henry W. Grady College of Journalism and Mass Communications.

## COMPENSATION OF DIRECTORS

Directors were compensated for their service to the Association in the form of an honorarium at the rate of \$500 per day for director and special meetings. The Board Chairman and Vice Chairman received an additional monthly honorarium at a rate of \$1,000 and \$500, respectively. The Audit Chairman received an additional honorarium of \$1,000, while other committee Chairmen received \$250 per month. All Directors received an annual retention fee of \$1,250 per month. Additionally, Outside Directors received an additional honorarium of \$750 per month. Committee meetings that are held in conjunction with another meeting are paid at the rate of \$500 per meeting, and Directors are paid an honorarium for conference calls at \$500, regardless of the length of the call. Directors were reimbursed for certain expenses incurred while representing the Association in an official capacity. Mileage for attending official meetings during 2021 was paid at the IRS-approved rate of 56 cents per mile.

Director	Number of Days Served		2021
	Board Meeting	Other Official Activities	
Matt Carter	14	14	\$ 29,000
David Conrad	14	20	53,000
Josh Drews	14	13	28,500
Robert Eubanks	14	7	25,500
<sup>1</sup> Gil Flautt	6	4	13,750
David Harris	13	13	36,000
Cody Hughes	13	19	31,000
Asa Langford	14	15	33,500
Chad Lee	13	15	41,000
Tina Murphy	14	18	31,000
Brent Neuhaus	14	16	38,000
Bert Pruett	14	20	32,000
Stacey Schumacher	7	4	11,750
			<u>\$ 404,000</u>

<sup>1</sup>Mr. Gil Flautt separated from the Board in August 2021.

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was \$109,679, \$42,640 and \$178,962 in 2021, 2020 and 2019, respectively.

## COMPENSATION OF SENIOR OFFICERS

### Compensation Discussion and Analysis – Senior Officers

The objective of the Association’s salary administration program is to attract, develop, retain and motivate staff who are knowledgeable and efficient in their ability to support the Association in the execution of its strategic objectives and deliver Association results that maximize the value received by its membership. The Association operates utilizing a compensation program, which focuses on the performance and contributions of its employees in achieving the Association’s financial and operational objectives. The Association’s Board of Directors, through its Compensation Committee, establishes annual salary and incentive programs utilizing the services of the Human Resources Compensation Team at the Bank to compile “Compensation Market Data” annually that is used by the Board and management in establishing salary levels. Data sources used include the Federal Reserve Bank of Dallas 11<sup>th</sup> District survey, Texas Community Bank survey (Independent Bankers Association of Texas), Watson Wyatt Financial Institution surveys, Mercer Financial Services Commercial Lending survey and CompData surveys. The Compensation Market Data reveals salary and incentive levels for similar-sized institutions operating in our geographic area. Studies provided by third-party compensation specialists form the foundation for the Association’s evaluation and establishment of annual salary plans used by the Association.

### Chief Executive Officer (CEO) Compensation Policy

The CEO’s salary is established for the period January 1 through December 31 of each year and is set by the Board using the Compensation Market Data as a guideline to arrive at a fair and competitive salary. The CEO’s bonus follows the Association’s Annual Incentive Plan structure that is based upon the Association’s financial performance, credit administration and quality goals and attainment of other goals and objectives specifically established in the Association’s Business Plan. This incentive is based on the period from January through December of each year.

### Summary Compensation Table

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

Name of Individual	Year	Salary (a)	Bonus (b)	Change in Pension Value (c)	Deferred/Perquisite (d)	Other (e)	Total
<b>Joe H. Hayman</b>	<b>2021</b>	<b>\$ 504,415</b>	<b>\$ 265,984</b>	<b>\$ -</b>	<b>\$ 67,763</b>	<b>\$ -</b>	<b>\$ 838,162</b>
Joe H. Hayman	2020	414,288	242,500	-	46,957	-	703,745
William Melton (Interim)	2020	70,996	-	-	-	-	70,996
William Melton (Interim)	2019	350,013	130,200	-	-	-	480,213
Troy Bussmeir	2019	-	-	-	-	149,077	149,077

(a) Gross Salary.

(b) Bonuses earned in 2021, 2020 and 2019.

(c) Change in pension value (noncash).

(d) Deferred Perquisite: 2021, 2020 and 2019 include contribution to 401(k) and defined contribution plans, automobile benefits and premiums paid for life insurance.

(e) Other 2019 includes severance, memberships to professional and social organizations, executive physicals and travel allowance.

Name of Group	Year	Salary (a)	Bonus (b)	Change in Pension Value	Deferred/Perquisite (d)	Other (e)	Total
<b>Aggregate No. of Senior Officers in Year Excluding CEO</b>							
7	<b>2021</b>	<b>\$ 1,280,166</b>	<b>\$ 661,357</b>	<b>\$ -</b>	<b>\$ 197,384</b>	<b>\$ -</b>	<b>\$ 2,138,907</b>
6	2020	1,057,824	487,860	-	179,247	253	1,725,184
7	2019	945,891	240,715	-	262,238	161,481	1,610,325

(a) Gross Salary.

(b) Bonuses earned in 2021, 2020 and 2019.

(c) Change in pension value (noncash).

(d) Deferred Perquisite: 2021, 2020 and 2019 include contribution to 401(k) and defined contribution plans, automobile benefits and premiums paid for life insurance.

(e) Other 2020 and 2019 includes severance, memberships to professional and social organizations, executive physicals and travel allowance.

Disclosure of information on the total compensation paid and the arrangements of the compensation plans during the last fiscal year to any senior officer or to any other officer included in the aggregate is available and will be disclosed to shareholders of the institution upon request.



### Defined Benefit Pension Plan:

The Defined Benefit Pension Plan (Pension Plan) is a final average pay plan that was closed to new participants in 1996, and later fully closed to all participants, including rehires who had formerly participated in the plan. The Pension Plan benefits are based on the average monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 (FAC60). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times "Years of Benefit Service" and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation times (ii) "Years of Benefit Service" (not to exceed 35).

The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the employee's retirement age is 65, that the employee is married on the date the annuity begins, that the spouse is exactly two years younger than the employee, and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions is incorrect, the benefit is recalculated to be the actuarial equivalent benefit. The Pension Plan benefit is offset by the pension benefits any employee may have from another Farm Credit System institution.

### Other

Employees assigned Association automobiles reimburse the Association for personal miles at a management-established rate. Employees who use their personal automobiles for business purposes were reimbursed during 2021 at the IRS-approved rate of 56 cents per mile.

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

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

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

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

## **DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS**

During the past five years, none of the Association's officers or directors has 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 on January 1, 2021, or any time during the year just ended.

## **RELATIONSHIP WITH INDEPENDENT AUDITOR**

No change in auditors has taken place since the last annual report to stockholders and no disagreements with auditors have 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 rendered for the Association by PricewaterhouseCoopers LLP for the year ending December 31, 2021 were \$150,141 including \$900 for non-audit services and \$9,300 for tax services.

## **FINANCIAL STATEMENTS**

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 11, 2022, and the report of management in this annual report to stockholders, are incorporated herein by reference.

## **MEMBER/SHAREHOLDER PRIVACY**

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

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

Lone Star, ACA is obligated to establish programs that respond to the credit and related service needs of Young, Beginning and Small (YBS) farmers and ranchers. It is the Association's responsibility to fulfill its public policy role by extending credit and related services to this important sector of our customer base. YBS farmers and ranchers face continuing challenges in agriculture, including access to capital and credit needs, limited financial resources for land and equipment, urbanization demands and increasing competition from larger and highly capitalized operations.

The Board of Directors and management are committed to providing programs that facilitate meeting the needs of this group of customers. These programs also address other issues, including the aging of agricultural landowners and customers, the need to transfer assets to another generation of potential landowners and a recognition that many young, beginning and small operators will need to supplement their farm income by seeking off-farm employment. Additionally, demographic trends indicate that agricultural landowners make decisions regarding land or agricultural endeavors based on lifestyle choices, recreational utility or as an alternative investment in a major financial asset.

### **Definitions for YBS Farmers and Ranchers**

**Young Farmer or Rancher**- a farmer, rancher or producer/harvester of aquatic products who was age 35 or younger as of the date when the loan was originally made.

**Beginning Farmer or Rancher**- a farmer, rancher or producer/harvester of aquatic products who had 10 years or less of experience at farming, ranching, or producing or harvesting aquatic products as of the date the loan was originally made.

**Small Farmer or Rancher**- a farmer, rancher or producer/harvester of aquatic products who normally generates less than \$250,000 in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

(A loan to a borrower may meet the definition of a YBS borrower if any one of the categories is achieved.)

In order to address the specific needs of these customers and to be responsive to the credit needs of young, beginning and small farmers, the Association utilizes all existing loan programs to maximize the benefit to young, beginning and small farmers. The Association has also developed specific loan programs to meet the credit needs of this group. Qualifying young, beginning and small farmers who are involved or becoming more involved in agriculture may be eligible for loans with more flexible rates and fees.

The Association's YBS loans as a percentage of total loans outstanding for years ending 2021, 2020 and 2019, respectively, are reflected in the table below:

	2021		2020		2019	
	<u>% Loans</u>	<u>% Volume</u>	<u>% Loans</u>	<u>% Volume</u>	<u>% Loans</u>	<u>% Volume</u>
Young	17.56	11.83	17.66	11.97	17.07	11.92
Beginning	66.71	57.79	63.78	48.85	62.39	47.75
Small	85.46	63.98	85.02	58.78	85.00	59.90

The Association's YBS loans, as a percentage of all loans closed each year, are reflected in the table below for the past three years:

	2021		2020		2019	
	<u>% Loans</u>	<u>% Volume</u>	<u>% Loans</u>	<u>% Volume</u>	<u>% Loans</u>	<u>% Volume</u>
Young	16.62	10.99	19.42	11.82	17.81	12.88
Beginning	72.14	72.55	64.45	54.85	59.84	45.17
Small	84.20	72.86	81.20	59.64	80.90	54.20

The Board established quantitative targets within the 2021 operational and strategic business plan to measure and evaluate progress toward serving young, beginning and small customers. These volume-based targets for performance included new credit to young farmers at 10 percent, to beginning farmers at 40 percent, and to small farmers at 45 percent. Based on 2021 lending activity, new credit delivered to young, beginning and small farmers exceeded all targets. The percentage goals were achieved primarily due to core loan activity being greater than projected. Goals were also established by the Board for loans outstanding to young, beginning and small farmers. Volume-based performance goals for outstanding loans included young borrowers at 11 percent, beginning borrowers at 50 percent and small borrowers at 61 percent of all loans outstanding. All of these targets were met.

The United States Department of Agriculture's NASS 2017 Census of Agriculture provides data regarding the actual market for YBS farmers and ranchers within the 48-county area served by Lone Star. This census data indicated 4.8 percent of farm operators are "young," 30.4 percent of operators are "beginning" and 97.7 percent of farm units are categorized as "small." There are differences in the methods by which Association YBS data and demographic census data collect information. For instance, census data is based on the number of farms, whereas Association data is based on the number of customers. Additionally, census dates do not coincide with an annual analysis of Association data, and calculations for young and beginning farmers are slightly different. Annual performance data and goals established also include lending activity outside the Association's territory. However, the comparison does offer a quantitative measure of the Association's performance in fulfilling its mission of service to young, beginning and small farmers.

The Association coordinates its young, beginning and small farmer loan program activities with other lenders. This includes the purchase and sale of loan participations, loan guarantees and joint lending. Related services including appraisal, credit life insurance, life and disability products and leasing programs are available to assist YBS borrowers in their credit and related service needs.

Important components of the Association's YBS efforts include the emphasis placed on outreach programs. The Association has a long-standing belief that an investment in agricultural students and youth activities is important to the long-term success of the cooperative. The Association develops a comprehensive array of marketing efforts to include youth activities and events including livestock shows, 4-H and FFA events, young professional groups, two endowments with major universities in its territory, and agricultural leadership opportunities. Search engine marketing through digital and keyword advertising is also an important means of educating and serving this demographic.

The Association offers a scholarship program for area seniors, and six scholarships are awarded in the lending area. The Association also sponsors youth activities in the local area and at the state level through support of 4-H and FFA activities and conventions.

A YBS advisory board was formed to generate ideas and methods on how Lone Star, ACA can better serve the YBS demographic in our area. The advisory board minutes are reported to the Board of Directors.

In summary, the Association fulfills its mission of providing agricultural credit and meeting the specific credit and related service needs of young, beginning and small farmers, ranchers and producers/harvesters of aquatic products through specific lending programs, quantitative performance measures and broad-based objectives.