HERITAGE LAND BANK

2023 Annual Report

December 31, 2023

Part of the Farm Credit System

Dear Stockholders,

I hope this letter finds you well as we reflect on the events of 2023 and look forward to the opportunities ahead for Heritage Land Bank. As we navigate through the financial landscape and plan for the future, I am honored to address you as the Chairman of the board of directors during these pivotal times.

First and foremost, I want to acknowledge the resilience and dedication displayed by our Heritage team throughout the past year. Despite the challenges posed by the prevailing rate environment, Heritage Land Bank sustained its commitment to excellence. Our collective efforts propelled us forward, and I commend each of you for your unwavering support.

However, I must address significant developments that have impacted our operations. In January, the board of directors made the difficult decision to adjust the patronage payout for 2024. Instead of the anticipated 100 basis points, the payout will average 60 basis points. This reduction is not a reflection of any shortcomings on the part of Heritage Land Bank's leadership, management, or staff. Rather, it is a consequence of external factors.

The Association experienced a decline in credit quality resulting from $13.9 million in loan volume being identified as nonaccrual. Due to the combination of multiple external events, our ability to distribute patronage dividends at previous levels has been compromised, impacting our stockholders this year, and potentially over the next several years.

Amidst these challenges, Heritage Land Bank entered into a joint management agreement with Texas Farm Credit, a respected Farm Credit association that shares our commitment to supporting agriculture and rural Texas. Under this agreement, Mark Miller, an esteemed leader with over three decades of experience in the Farm Credit system, assumed the role of Chief Executive Officer for Heritage Land Bank as well as Texas Farm Credit.

I want to reassure our stockholders that the decision to enter into a joint management agreement was guided by a steadfast dedication to your best interests as we aim to recover from our current challenges as swiftly as possible. This strategic move underscores our unwavering commitment to the financial stability, long-term success, and preserving the values and principles that define Heritage Land Bank.

In conclusion, I extend my sincere appreciation for your continued support and trust in Heritage Land Bank. Your partnership remains invaluable as we navigate the challenges and opportunities that lie ahead. Together, we will chart a course toward a prosperous future.

Warm regards,

Kevin Sampson

Kevin Sampson
Chairman of the Board of Directors
Heritage Land Bank

Dear Stockholders,

I write to you today with great anticipation as we reflect on the journey of Heritage Land Bank and look toward the promising horizon that lies ahead. As we close out the 2023 year, I am honored to address you for the first time as the Chief Executive Officer of Heritage Land Bank, as well as Texas Farm Credit, under our newly established joint management agreement.

The announcement of our joint management agreement symbolizes more than just a collaboration between two esteemed organizations; it embodies a commitment to the future of agriculture and rural Texas. With shared values and a dedication to serving our communities, Heritage Land Bank and Texas Farm Credit have embarked on a path of mutual growth and prosperity.

For over three decades, I have witnessed the resilience and innovation inherent in the Farm Credit System. From humble beginnings as a loan officer in South Texas to assuming leadership roles culminating in the position of Chief Executive Officer, I have been privileged to witness firsthand the transformative impact of agricultural lending on rural communities. Now, as I assume the role of CEO for Heritage Land Bank, I bring with me a deep-seated belief in the power of collaboration and the potential for positive change.

As stockholders, you are the heartbeat of our organization, and your well-being is paramount in every decision we make. Heritage Land Bank is proud to offer a patronage program that returns cash-back dividends to our valued members. In 2023, Heritage Land Bank returned a cash dividend of $6.4 million to member-borrowers in north and east Texas. This milestone underscores our collective dedication to fostering prosperity within our communities and reinforcing the cooperative principles upon which we were founded.

Unfortunately, the board members recently had to make a difficult decision to reduce the 2024 patronage dividend, aiming to preserve a capital position that reflects a stable and secure association. This was necessitated by significant external events outside the control of the board or management of Heritage Land Bank. Additionally, the Association experienced a consequential decline in credit quality resulting from a significant portion of loan volume being identified as nonaccrual. These events require a review of financial strategies and positions that will be guided by a steadfast dedication to preserving the values and traditions that define our cooperative identity.

As we navigate the path forward, I invite you to join us in embracing the spirit of collaboration and innovation that defines our journey. Together, we have the opportunity to shape a future where agriculture thrives, rural communities flourish, and the legacy of Heritage Land Bank endures for generations to come.

Sincerely,

Mark Miller

Mark Miller
Chief Executive Officer
Heritage Land Bank

Heritage Land Bank, ACA

Table of Contents

REPORT OF MANAGEMENT

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

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

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

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

Mark Miller, Chief Executive Officer
February 22, 2024

Kevin Sampson, Chair, Board of Directors
February 22, 2024

Stephanie King, Chief Financial Officer
February 22, 2024

REPORT OF AUDIT COMMITTEE

The Audit Committee (Committee) is composed of five members of the board of directors of Heritage Land Bank, ACA. In 2023, seven Committee meetings were held. The Committee oversees the scope of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on the Association's website. The Committee approved the appointment of Henry & Peters, PC for 2023.

Management is responsible for the Association's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements are prepared under the oversight of the Committee. Henry & Peters, PC is responsible for performing an independent audit of Heritage Land Bank, 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 the Association's audited consolidated financial statements for the year ended December 31, 2023, with management and Henry & Peters, PC. The Committee also reviews with Henry & Peters, PC the matters required to be discussed by authoritative guidance "The Auditor's Communication With Those Charged With Governance," and both Henry & Peters, PC and the Association's internal auditors directly provide reports on significant matters to the Committee.

The Committee discussed with Henry & Peters, PC its independence from Heritage Land Bank, ACA. The Committee also reviewed the nonaudit services provided by Henry & Peters, PC and concluded that these services were not incompatible with maintaining the independent accountant's independence. The Committee has discussed with management and Henry & Peters, PC such other matters and received such assurances from them as the Committee deemed appropriate.

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

Audit Committee Members

JD Parker, Chair *
Roger Claxton
Gary Ray
Jack S. Pullen
Kevin Sampson

February 22, 2024

*Appointed to the board of directors in January 2024

HERITAGE LAND BANK, ACA

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

	2023	2022	2021	2020	2019
Balance Sheet Data					
Assets					
Cash	**$ 7**	$ 11	$ 40	$ 8	$ 216
Loans	**714,705**	669,320	660,072	611,403	551,868
Less: allowance for credit losses on loans	**5,759**	5,506	5,433	5,272	5,247
Net loans	**708,946**	663,814	654,639	606,131	546,621
Investment in and receivable from the Farm Credit Bank of Texas	**12,433**	11,745	12,412	10,757	10,070
Other property owned, net	**-**	-	-	1,078	1,078
Other assets	**11,475**	9,428	8,459	8,304	6,884
Total assets	**$ 732,861**	$ 684,998	$ 675,550	$ 626,278	$ 564,869
Liabilities					
Obligations with maturities of one year or less	**$ 10,181**	$ 11,173	$ 9,652	$ 8,098	$ 7,667
Obligations with maturities greater than one year	**620,734**	573,289	569,201	526,371	470,360
Total liabilities	**630,915**	584,462	578,853	534,469	478,027
Members' Equity					
Capital stock and participation certificates	**2,616**	2,664	2,718	2,648	2,512
Unallocated retained earnings	**99,229**	97,778	94,289	89,507	84,454
Accumulated other comprehensive income (loss)	**101**	94	(310)	(346)	(124)
Total members' equity	**101,946**	100,536	96,697	91,809	86,842
Total liabilities and members' equity	**$ 732,861**	$ 684,998	$ 675,550	$ 626,278	$ 564,869
Statement of Income Data					
Net interest income	**$ 17,775**	$ 17,357	$ 16,708	$ 15,326	$ 14,616
(Provision for loan losses) loan loss reversal	**(185)**	-	-		
Income from the Farm Credit Bank of Texas	**2,263**	4,262	3,874	3,275	2,773
Other noninterest income	**270**	416	834	622	371
Noninterest expense	**(13,484)**	(12,370)	(11,828)	(10,350)	(10,020)
Net income	**$ 6,639**	$ 9,665	$ 9,588	$ 8,873	$ 7,740
Key Financial Ratios for the Year					
Return on average assets	**0.9%**	1.4%	1.5%	1.5%	1.4%
Return on average members' equity	**6.8%**	9.8%	10.2%	10.0%	9.1%
Net interest income as a percentage of average earning assets	**2.6%**	2.6%	2.6%	2.7%	2.7%
Net charge-offs (recoveries) as a percentage of average loans	**0.0%**	0.0%	0.0%	0.0%	0.0%

HERITAGE LAND BANK, ACA

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

	2023	2022	2021	2020	2019
Key Financial Ratios at Year End*					
Members' equity as a percentage of total assets	**13.9%**	14.7%	14.3%	14.7%	15.4%
Debt as a percentage of members' equity	**618.9%**	581.3%	598.6%	582.2%	550.5%
Allowance for credit losses on loans as a percentage of loans	**0.8%**	0.8%	0.8%	0.9%	1.0%
Common equity tier 1 ratio	**13.0%**	13.0%	13.0%	13.7%	14.5%
Tier 1 capital ratio	**13.0%**	13.0%	13.0%	13.7%	14.5%
Total capital ratio	**13.8%**	13.9%	13.8%	14.6%	15.5%
Permanent capital ratio	**13.1%**	13.1%	13.1%	13.8%	14.6%
Tier 1 leverage ratio	**12.7%**	12.8%	12.7%	13.3%	14.5%
UREE leverage ratio	**12.4%**	12.4%	13.7%	14.4%	14.9%
Net Income Distribution					
Cooperative dividends accrued	**$ 5,188**	$ 6,176	$ 4,805	$ 3,820	$ 3,976

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

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

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Heritage Land Bank, ACA, including its wholly owned subsidiaries, Heritage Production Credit, PCA and Heritage Land Bank, FLCA (collectively called "the Association") for the years ended December 31, 2023, 2022, and 2021, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying financial statements were prepared under the oversight of the Association's Audit Committee.

Forward-Looking Information:

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

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

Significant Events:

In December 2023, the Association completed a severance agreement in conjunction with the retirement of CEO William Tandy.

In December 2023, the Association entered into a Joint Management Agreement with Texas Farm Credit Services. The agreement established Texas Farm Credit Services' CEO, Mark Miller, as CEO of both organizations. This agreement will continue until terminated by either association's board of directors or failure to adopt a letter of intent to merge by April 15, 2024.

Adoption of New Accounting Standard

Effective January 1, 2023, the Association adopted the current expected credit losses (CECL) accounting guidance that replaced the incurred loss guidance. CECL established a single allowance framework for financial assets carried at amortized cost and certain off-balance-sheet credit exposures. CECL requires management to consider in its estimate of allowance for credit losses (ACL) relevant historical events, current conditions, and reasonable and supportable forecasts that affect the collectability of the assets. The adoption of this guidance was not material to the allowance for credit losses and retained earnings.

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

Patronage Refunds Received From Farm Credit Bank of Texas:

In December 2023, the Association received a direct loan patronage of $1,666,696 from the Farm Credit Bank of Texas (the Bank), representing 28 basis points on the average daily balance of the Association's direct loan with the Bank. The direct loan patronage was 70 percent cash and 30 percent allocated equities. During 2023, the Association received $344,517 in patronage payments from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a capital markets patronage of $89,183 from the Bank, representing 75 basis points on the Association's average balance of participations in the Bank's patronage pool program.

Monthly, the Association accrues income for an annual patronage dividend received in December of each year at the discretion of the Farm Credit Bank of Texas. The level of the Association's accrual of projected patronage income is based on history and annual expectations. Based on information received after June 30, the Association's expectations for the Farm Credit Bank 2023 patronage to the Association were reduced significantly. As such, the Association's accrual of anticipated income for the remainder of 2023 was reduced to match revised expectations. This reduction in patronage received from the Farm Credit Bank had the effect of reducing the Association's net income and as a consequence, reduced the Association's annual dividend to stockholders.

For more than 106 years, the Association has continued to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the Association while offering competitive loan products that meet the financial needs of agricultural producers.

Cooperative Dividend Distributions by Association:

In 2023, 2022, and 2021, the Association paid cooperative dividends of $6,443,979, $4,327,156, and $3,968,144, respectively. In January 2024, the board of directors approved a $4,011,757 cooperative dividend to be paid in March 2024. See Note 10, "Members' Equity," included in the accompanying consolidated financial statements, for further information.

Loan Portfolio:

The Association makes and services loans to farmers, ranchers, rural homeowners, and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans, and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed, adjustable, SOFR-based, and prime-based interest rates. Loan maturities range from one to 30 years, with annual operating loans comprising the majority of the commercial loans and 20- to 30-year maturities comprising the majority of the mortgage loans. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

The composition of the Association's loan portfolio, including principal less funds held of $714,704,961, $669,320,338, and $660,072,336 as of December 31, 2023, 2022, and 2021, respectively, is described more fully in detailed tables in Note 3, "Loans and Allowance for Credit Losses on Loans," in the accompanying consolidated financial statements.

Purchase and Sales of Loans:

During 2023, 2022, and 2021, the Association was participating in loans with other lenders. As of December 31, 2023, 2022, and 2021, these participations totaled $19,766,773, $19,534,994, and $12,054,346, or 2.8 percent, 2.9 percent, and 1.8 percent of loans, respectively. There were no participations purchased from entities outside the Association's district during these years. The Association has also sold participations of $37,616,952, $31,873,163, and $24,623,211 as of December 31, 2023, 2022, and 2021, respectively.

Risk Exposure:

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

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

Nonperforming Assets

	2023		2022		2021	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual loans	**$ 13,940,749**	**100.0%**	$ 108,736	100.0%	$ 194,728	100.0%
Accruing loans 90 days or more past due	**-**	**0.0%**	-	0.0%	-	0.0%
Other property owned, net	**-**	**0.0%**	-	0.0%	-	0.0%
Nonperforming assets	**$ 13,940,749**	**100.0%**	$ 108,736	100.0%	$ 194,728	100.0%

At December 31, 2023, 2022, and 2021, nonperforming loans were $13,940,749, $108,736, and $194,728, respectively, representing 2.0%, 0.0%, and 0.0% of loan volume, respectively.

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.

The majority of Association borrowers have the availability of nonfarm income sources for repayment, which mitigates some of the factors that would affect other agricultural lenders. To help mitigate and diversify credit risk, the Association may implement more restrictive lending standards and may employ practices including securitization of loans, obtaining credit guarantees, and engaging in loan participations.

Allowance for Credit Losses on Loans:

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

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

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

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

Based upon ongoing risk assessment and the procedures outlined above, the allowance for credit losses on loans of $5,758,996, $5,505,525, and $5,432,897 at December 31, 2023, 2022, and 2021, respectively, is considered adequate by management to compensate for losses in the loan portfolio at such dates. This is supported by net recoveries, rather than charge-offs, and an acceptable loan percentage of greater than 97 percent for each of the past three years.

Results of Operations:

The Association's net income for the year ended December 31, 2023, was $6,639,203, as compared to $9,664,772 for the year ended December 31, 2022, reflecting a decrease of $3,025,569, or 31.3 percent. The Association's net income for the year ended December 31, 2021, was $9,587,638. Net income increased $77,134, or 0.8 percent, in 2022 versus 2021.

Net interest income for 2023, 2022, and 2021 was $17,774,988, $17,357,352, and $16,708,056, respectively, reflecting increases of $417,636, or 2.4 percent, for 2023 versus 2022 and $649,296, or 3.9 percent, for 2022 versus 2021. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets, and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2023		2022		2021	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 679,746,746**	**$ 34,583,079**	$ 663,610,524	$ 30,145,443	$ 642,534,689	$ 27,940,802
Interest-bearing liabilities	**586,051,198**	**16,808,091**	572,049,333	12,788,091	556,195,874	11,232,746
Impact of capital	**$ 93,695,548**		$ 91,561,191		$ 86,338,815	
Net interest income		**$ 17,774,988**		$ 17,357,352		$ 16,708,056

	2023	2022	2021
	Average Yield	Average Yield	Average Yield
Yield on loans	**5.09%**	4.54%	4.35%
Cost of interest-bearing liabilities	**2.87%**	2.24%	2.02%
Interest rate spread	**2.22%**	2.30%	2.33%

	2023 vs. 2022			2022 vs. 2021		
	Increase due to			Increase due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income - loans	**$ 733,004**	**$ 3,704,632**	**$ 4,437,636**	$ 916,483	$ 1,288,158	$ 2,204,641
Interest expense	**313,012**	**3,706,988**	**4,020,000**	320,176	1,235,169	1,555,345
Net interest income	**$ 419,992**	**$ (2,356)**	**$ 417,636**	$ 596,307	$ 52,989	$ 649,296

Interest income for 2023 increased by $4,437,636, or 14.7 percent, compared to 2022, primarily due to an increase in yield on earning assets. Interest income for 2022 increased by $2,204,641, or 7.9 percent, compared to 2021, due to an increase in yield on earning assets and an increase in average loan volume. Interest expense for 2023 increased by $4,020,000, or 31.4 percent, compared to 2022, due to an increase in the cost of funds. Interest expense for 2022 increased by $1,555,345, or 13.8 percent, compared to 2021, due to an increase in the cost of funds and an increase in average debt volume.

The interest rate spread decreased by eight basis points to 2.22 percent in 2023 from 2.30 percent in 2022, and by three basis points to 2.30 percent in 2022 from 2.33 percent in 2021, primarily due to an increase in the cost of funds that outpaced the increase in loan yields. The Association is subject to interest rate competition and compression at the origination of each loan, but the subsequent interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the Bank. Direct pricing through the Bank limits interest rate risk over the life of each loan. This results in a relatively stable net interest margin.

Provisions for loan losses increased by $185,252, or 100%, compared to $0 in 2022, due primarily to the Association needing to record a specific allowance related to one lending relationship.

Noninterest income for 2023 decreased by $2,144,251, or 45.8 percent, compared to 2022, primarily due to a decrease in patronage income from the Bank. Noninterest income for 2022 decreased by $30,553, or 0.7 percent, compared to 2021, primarily due to a $659 net gain on other property owned in 2022 compared to a net gain of $242,227 on other property owned in the prior year, despite an increase in patronage income from the Bank.

Noninterest expenses, or operating expenses, consist primarily of salaries, employee benefits, and purchased services. Expenses for purchased services may include administrative services, marketing, information systems, accounting, and loan processing, among others. Noninterest expenses for 2023 increased by $1,113,702, or 9.0 percent, compared to 2022, primarily due to increases in salaries and employee benefits of $435,755 and occupancy equipment costs of $321,882. Noninterest expenses for 2022 increased by $541,609, or 4.6 percent, compared to 2021, primarily due to increases in occupancy and equipment costs of $168,352 and salaries and employee benefits of $141,827. Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs resulted in the capitalization of $339,354, $161,029, and $290,025 for 2023, 2022, and 2021, respectively, in origination costs, which will be amortized over the life of the loans as an adjustment to yield in net interest income. The capitalized costs consisted of salaries and benefits totaling $304,064, $312,789, and $293,417 for 2023, 2022, and 2021, respectively, related to the origination of loans.

Despite the $1,113,702 increase in operating expenses, there was a decrease of $81,830 in premiums to the Insurance Fund, resulting from a decrease in the premium rates from 20 basis points in 2022 to 18 basis points in 2023. The $541,609 increase in operating expenses from 2021 to 2022 included an increase of $250,374 in premiums to the Insurance Fund, resulting from an increase in the premium rates from 16 basis points in 2021 to 20 basis points in 2022.

For the year ended December 31, 2023, the Association's return on average assets was 1.0 percent, as compared to 1.4 percent and 1.5 percent for the years ended December 31, 2022, and 2021, respectively. For the year ended December 31, 2023, the Association's return on average members' equity was 7.0 percent, as compared to 9.8 percent and 10.2 percent for the years ended December 31, 2022, and 2021, respectively.

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

Liquidity and Funding Sources:

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

The Association's indebtedness to the Bank represents borrowing by the Association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a general financing agreement (GFA). As of December 31, 2023, the Association was in default of two of the covenants of the GFA. The Bank waived the covenant violations.

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $619,064,377, $572,082,121, and $568,220,382 as of December 31, 2023, 2022, and 2021, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 3.3 percent, 2.5 percent, and 2.0 percent at December 31, 2023, 2022, and 2021, respectively. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a general financing agreement (GFA). The increase in note payable to the Bank and related accrued interest payable since December 31, 2022, is due primarily to a net increase in loan volume. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $95,061,532, $96,505,128, and $91,191,789 at December 31, 2023, 2022, and 2021, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2023, was $712,323,483 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, which is September 30, 2026, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The liquidity policy of the Association is to limit cash balances to maximize debt reduction while relying on the direct loan with the Bank to fund increased accrual loan volume. This policy will continue to be pursued during 2024. As borrower payments are received, they are applied to the Association's note payable to the Bank.

The Association will continue to fund its operations through direct borrowings from the Bank, capital surplus from prior years, and 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 $101,946,131, $100,536,904, and $96,696,797 at December 31, 2023, 2022, and 2021, respectively.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-weighted assets as defined by the Farm Credit Association (FCA). The permanent capital ratio measures available at-risk capital relative to risk-weighted assets and off-balance-sheet contingencies. The ratio is an indicator of the Association's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The Association's permanent capital ratio at December 31, 2023, 2022, and 2021 was 13.1 percent for each year.

The Association is also required to maintain minimum common equity Tier 1 (CET1), Tier 1 capital, and total capital ratios of 4.5 percent, 6.0 percent, and 8.0 percent, respectively, along with a capital conservation buffer of 2.5 percent applicable to each ratio. The 2.5 percent capital conservation buffer was phased in over a three-year period ending on December 31, 2019. The Association's common equity Tier 1 ratio was 13.0 percent, Tier 1 capital ratio was 13.0 percent, and total capital ratio was 13.8 percent at December 31, 2023. Further, the Association is required to maintain a minimum Tier 1 leverage ratio of 4.0 percent, along with a leverage buffer of 1.0 percent, and a minimum unallocated retained earnings equivalents (UREE) leverage ratio of 1.5 percent. The Association's Tier 1 leverage ratio was 12.7 percent and UREE leverage ratio was 12.4 percent at December 31, 2023.

The CET1 capital ratio is an indicator of the Association's highest quality of capital and consists of unallocated retained earnings, qualifying common cooperative equities (CCEs) that meet the required holding periods, and paid-in capital. The Tier 1 capital ratio is a measure of the Association's quality of capital and financial strength. The total capital ratio is supplementary to the Tier 1 capital ratio, the components of which include qualifying CCEs subject to certain holding periods, third-party capital subject to certain holding periods, and limitations and allowance and reserve for credit losses subject to certain limitations. The Tier 1 leverage ratio is used to measure the amount of leverage an institution has incurred against its capital base, of which at least 1.5 percent must be unallocated retained earnings (URE) and URE equivalents.

Regulatory Matters:

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

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

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

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

Relationship With the Bank:

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

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

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

Summary:

Over the past 106 years, regardless of the state of the agricultural economy, your Association's board of directors and management, as well as the board of directors and management of the Bank, have been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this Association.

INDEPENDENT AUDITOR'S REPORT

To the Audit Committee and Management
of Heritage Land Bank, ACA

Opinion

We have audited the accompanying consolidated financial statements of Heritage Land Bank, ACA and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2023, 2022 and 2021, and the related consolidated statements of comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Heritage Land Bank, ACA and its subsidiaries (the "Company") and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 generally accepted auditing standards 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 generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 Company'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company'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 Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the report of management, report of the audit committee, five-year summary of selected financial data, management's discussion and analysis, and disclosure information and index, but does not include the consolidated financial statements and our auditor's 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.

Henry + Peters, P.C.

Tyler, Texas
February 22, 2024

HERITAGE LAND BANK, ACA

CONSOLIDATED BALANCE SHEETS

	December 31,		
	2023	2022	2021
Assets			
Cash	**$ 7,236**	$ 10,710	$ 39,628
Loans	**714,704,961**	669,320,338	660,072,336
Less: allowance for credit losses on loans	**5,758,996**	5,505,525	5,432,897
Net loans	**708,945,965**	663,814,813	654,639,439
Accrued interest receivable	**3,613,887**	2,967,626	2,560,938
Investment in and receivable from the Farm Credit Bank of Texas:			
Capital stock	**12,151,939**	11,432,815	11,039,020
Other	**281,331**	311,967	1,372,986
Premises and equipment	**7,306,253**	5,903,709	5,474,306
Other assets	**554,468**	556,966	423,448
Total assets	**$ 732,861,079**	$ 684,998,606	$ 675,549,765
Liabilities			
Note payable to the Farm Credit Bank of Texas	**$ 619,064,377**	$ 572,082,121	$ 568,220,382
Advance conditional payments	**-**	17,402	1,044
Accrued interest payable	**1,669,593**	1,206,694	980,745
Drafts outstanding	**121,557**	51,765	206,161
Cooperative dividends payable	**5,180,000**	6,435,520	4,587,000
Other liabilities	**4,879,521**	4,668,200	4,857,636
Total liabilities	**630,915,048**	584,461,702	578,852,968
Members' Equity			
Capital stock and participation certificates	**2,616,445**	2,664,455	2,717,525
Unallocated retained earnings	**99,229,149**	97,778,405	94,289,309
Accumulated other comprehensive income (loss)	**100,437**	94,044	(310,037)
Total members' equity	**101,946,031**	100,536,904	96,696,797
Total liabilities and members' equity	**$ 732,861,079**	$ 684,998,606	$ 675,549,765

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

HERITAGE LAND BANK, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2023	2022	2021
Interest Income			
Loans	**$ 34,583,079**	$ 30,145,443	$ 27,940,802
Total interest income	**34,583,079**	30,145,443	27,940,802
Interest Expense			
Note payable to the Farm Credit Bank of Texas	**16,807,864**	12,788,025	11,232,733
Advance conditional payments	**227**	66	13
Total interest expense	**16,808,091**	12,788,091	11,232,746
Net interest income	**17,774,988**	17,357,352	16,708,056
Provision for credit losses on loans	**185,252**	-	-
Net interest income after provision for credit losses on loans	**17,589,736**	17,357,352	16,708,056
Noninterest Income			
Income from the Farm Credit Bank of Texas:			
Patronage income	**2,263,302**	4,261,690	3,873,740
Loan fees	**147,953**	138,324	161,667
Refunds from Farm Credit System Insurance Corporation	**8,655**	133,080	58,567
Financially related services income	**1,122**	1,236	1,440
Gain on other property owned, net	**-**	659	242,227
Gain on sale of premises and equipment, net	**50,432**	72,837	-
Other noninterest income	**61,566**	69,455	370,193
Total noninterest income	**2,533,030**	4,677,281	4,707,834
Noninterest Expenses			
Salaries and employee benefits	**7,836,133**	7,400,378	7,258,551
Directors' expense	**322,242**	276,368	223,793
Purchased services	**521,089**	372,625	449,944
Travel	**393,253**	352,421	332,996
Occupancy and equipment	**1,388,539**	1,066,657	898,305
Communications	**120,012**	124,026	137,242
Advertising	**588,852**	478,581	642,003
Public and member relations	**676,367**	566,288	509,709
Supervisory and exam expense	**252,532**	238,527	214,267
Insurance Fund premiums	**1,077,460**	1,159,290	908,916
Other noninterest expense	**307,084**	334,700	252,526
Total noninterest expenses	**13,483,563**	12,369,861	11,828,252
NET INCOME	**6,639,203**	9,664,772	9,587,638
Other comprehensive income:			
Change in postretirement benefit plans	**6,393**	404,081	36,190
COMPREHENSIVE INCOME	**$ 6,645,596**	$ 10,068,853	$ 9,623,828

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

HERITAGE LAND BANK, ACA

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2020	$ 2,648,380	$ 89,506,815	$ (346,227)	$ 91,808,968
Comprehensive income	-	9,587,638	36,190	9,623,828
Capital stock/participation certificates issued	594,455	-	-	594,455
Capital stock/participation certificates retired	(525,310)	-	-	(525,310)
Cooperative dividends accrued	-	(4,805,144)	-	(4,805,144)
Balance at December 31, 2021	2,717,525	94,289,309	(310,037)	96,696,797
Comprehensive income	-	9,664,772	404,081	10,068,853
Capital stock/participation certificates issued	332,025	-	-	332,025
Capital stock/participation certificates retired	(385,095)	-	-	(385,095)
Cooperative dividends accrued	-	(6,175,676)	-	(6,175,676)
Balance at December 31, 2022	2,664,455	97,778,405	94,044	100,536,904
Comprehensive income	-	6,639,203	6,393	6,645,596
Capital stock/participation certificates issued	211,365	-	-	211,365
Capital stock/participation certificates retired	(259,375)	-	-	(259,375)
Cooperative dividends accrued	-	(5,188,459)	-	(5,188,459)
Balance at December 31, 2023	**$ 2,616,445**	**$ 99,229,149**	**$ 100,437**	**$ 101,946,031**

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

HERITAGE LAND BANK, ACA

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2023	2022	2021
Cash flows from operating activities:			
Net income	**$ 6,639,203**	$ 9,664,772	$ 9,587,638
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	**185,252**	-	-
Gain on other property owned, net	**-**	(659)	(242,227)
Depreciation, amortization, and accretion	**576,721**	460,439	532,697
Gain on sale of premises and equipment, net	**(50,432)**	(72,837)	-
Gain on sale of other property owned, net	**-**	(659)	(242,227)
Increase in accrued interest receivable	**(646,261)**	(406,688)	(49,906)
Decrease (increase) in other receivables from the Farm Credit Bank of Texas (the Bank)	**30,636**	1,061,019	(407,895)
Allocated Equities Patronage from the Bank	**(500,009)**	-	-
Increase in other assets	**(28,204)**	(124,744)	(59,279)
Increase in accrued interest payable	**462,899**	225,949	61,179
Increase in other liabilities	**248,416**	205,871	796,685
Net cash provided by operating activities	**6,918,221**	11,013,122	10,218,892
Cash flows from investing activities:			
Increase in loans, net	**(45,486,215)**	(9,349,677)	(48,768,190)
Cash recoveries of loans previously charged off	**68,219**	72,628	100,710
Purchases of investments in the Farm Credit Bank of Texas (the Bank)	**(719,124)**	(393,795)	(1,247,070)
Proceeds from other investments in the Bank	**500,009**	-	-
Purchases of premises and equipment	**(1,886,900)**	(970,305)	(563,927)
Proceeds from sales of premises and equipment	**59,659**	254,975	429
Proceeds from sales of other property owned	**-**	659	1,320,152
Net cash used in investing activities	**(47,464,352)**	(10,385,515)	(49,157,896)

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

HERITAGE LAND BANK, ACA

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2023	2022	2021
Cash flows from financing activities:			
Net draws on note payable to the Farm Credit Bank of Texas	**$ 46,982,256**	$ 3,861,739	$ 42,769,244
Increase (decrease) in drafts outstanding	**69,792**	(154,396)	99,702
(Decrease) increase in advance conditional payments	**(17,402)**	16,358	526
Issuance of capital stock and participation certificates	**211,365**	332,025	594,455
Retirement of capital stock and participation certificates	**(259,375)**	(385,095)	(525,310)
Cooperative dividends paid	**(6,443,979)**	(4,327,156)	(3,968,144)
Net cash provided by (used in) financing activities	**40,542,657**	(656,525)	38,970,473
Net (decrease) increase in cash	**(3,474)**	(28,918)	31,469
Cash at the beginning of the year	**10,710**	39,628	8,159
Cash at the end of the year	**$ 7,236**	$ 10,710	$ 39,628
Supplemental schedule of noncash investing and financing activities:			
Cooperative dividends accrued	**$ 5,188,459**	$ 6,175,676	$ 4,805,144
Transfer of allowance for credit losses on loans from reserve for credit losses on unfunded commitments	**$ -**	$ -	$ 60,000
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	**$ 16,344,965**	$ 12,788,025	$ 11,262,554

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

HERITAGE LAND BANK, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND OPERATIONS:

A. Organization: Heritage Land Bank, ACA, including its wholly owned subsidiaries, Heritage Production Credit (PCA), and Heritage Land Bank, FLCA (collectively called "the Association"), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Anderson, Angelina, Cherokee, Collin, Dallas, Henderson, Hunt, Nacogdoches, Panola, Rockwall, Rusk, Sabine, San Augustine, Shelby, Smith, and Tarrant in the state of Texas.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act). At December 31, 2023, the System 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 (the Bank) and its related associations are collectively referred to as the "District." The Bank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. At December 31, 2023, the District consisted of the Bank, one FLCA, and 12 ACA parent companies, which have two wholly owned subsidiaries, an FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico, and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

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

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

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

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

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

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation and Consolidation

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

Use of Estimates

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

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

A. Recently Issued or Adopted Accounting Pronouncements: On January 1, 2023, the Association adopted the Financial Accounting Standards Board (FASB) guidance titled "Measurement of Credit Losses on Financial Instruments" and other subsequently issued accounting standards updates related to credit losses. This guidance replaced the current incurred loss impairment methodology with a single allowance framework that estimates the current expected credit losses (CECL) over the remaining contractual life for all financial assets measured at amortized cost and certain off-balance-sheet credit exposures. This guidance is applied on a modified retrospective basis. This framework requires management to consider in its estimate of the allowance for credit losses (ACL)relevant historical events, current conditions, and reasonable and supportable forecasts that consider macroeconomic conditions. The adoption of this guidance was not material to the allowance for credit losses and retained earnings.

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

   In December 2022, the FASB issued an update titled "Reference Rate Reform - Deferral of the Sunset Date of Topic 848." In March 2020, the FASB issued guidance titled "Facilitation of the Effects of Reference Rate

Reform on Financial Reporting (Reference Rate Reform)." The guidance provided optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform to ease the potential burden related to reference rate reform (transition away from the London Inter-Bank Offered Rate (LIBOR)). At the time the update was issued, the expectation was that LIBOR would cease to be published after December 31, 2021. In January 2021, the FASB issued an update to Reference Rate Reform whereby certain derivative instruments could be modified to change the rate used for margining, discounting, or contract price alignment. An entity could elect to apply the new amendments on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2021, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the update, up to the date that financial statements are available to be issued. These amendments did not apply to contract modifications made or new hedging relationships entered into after December 31, 2023, and existing hedging relationships evaluated for effectiveness in periods after December 31, 2022. Subsequent to the issuance of the January 2021 update, it was announced that the intended cessation date for various tenors of LIBOR would be September 30, 2023, thus necessitating the update to the sunset date. The amendments in the current update defer the sunset date from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief. The Association adopted this guidance in the first quarter of 2021, and the impact was not material to the Association's financial condition or its results of operations.

In March 2022, the FASB issued an update titled "Derivatives and Hedging: Fair Value Hedging – Portfolio Layer Method." Under current guidance, the last-of-layer method enables an entity to apply fair value hedging to a stated amount of a closed portfolio of prepayable financial assets (or one or more beneficial interests secured by a portfolio of prepayable financial instruments) without having to consider prepayment risk or credit risk when measuring those assets. This guidance will allow entities to apply the portfolio layer method to portfolios of all financial assets, including both prepayable and nonprepayable financial assets. This scope expansion is consistent with the FASB's efforts to simplify hedge accounting and allows entities to apply the same method to similar hedging strategies. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. The adoption of this guidance did not impact the Association's financial condition or results of operation as the System does not have a current derivative hedging strategy in which the last-of-layer method is used.

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which provides relief from certain requirements under GAAP, was signed into law. Section 4013 of the CARES Act gives entities temporary relief from the accounting and disclosure requirements for TDRs, and if certain criteria are met, these loan modifications may not need to be classified as TDRs. System entities adopted this relief for qualifying loan modifications. In response to the CARES Act, the Farm Credit Administration issued guidance allowing for temporary relief from accounting and disclosure requirements for TDRs. This TDR guidance applied to modifications made beginning March 1, 2020, and terminated on December 31, 2020.

In December 2019, the FASB issued guidance titled "Simplifying the Accounting for Income Taxes." This guidance eliminates certain intra-period tax allocations, foreign deferred tax recognition, and interim period tax calculations. In addition, the guidance simplifies disclosures regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements, and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance became effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance was permitted, and the Association adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the Association's financial condition or results of operations, nor did the guidance impact the presentation of taxes for prior periods in the 2020 year-end financial statements.

In August 2018, the FASB issued guidance titled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance became effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expenses and payments in the financial statements. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations.

In August 2018, the FASB issued guidance titled "Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance became effective for fiscal years ending after December 15, 2020. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance did not impact the Association's financial condition or its results of operations but did impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance titled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying, or adding to the disclosures. This guidance became effective for interim and annual periods beginning after December 15, 2019. Early adoption was permitted, and an entity was permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date.
The Association early adopted the removal and modified disclosures during the fourth quarter of 2019. The adoption of this guidance did not impact the Association's financial condition or its results of operations but did impact the fair value measurements disclosures.

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

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

Nonaccrual Loans

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

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

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

Accrued Interest Receivable

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

Loan Modifications to Borrowers Experiencing Financial Difficulty

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

Collateral Dependent Loans

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

Allowance for Credit Losses

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

- the allowance for credit losses on loans (ACLL), which covers the loan portfolio and is presented separately on the Consolidated Balance Sheets; and
- the allowance for credit losses on unfunded commitments, which is presented on the Consolidated Balance Sheets in other liabilities.

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

Allowance for Credit Losses on Loans

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

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

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

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

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

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

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

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

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

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

Allowance for Credit Losses on Unfunded Commitments

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

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 Sheets.

   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 and is included in other assets on the Consolidated Balance Sheets. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for credit losses on loans. On at least an annual basis, revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains (losses) on other property owned in the Consolidated 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. Long-lived assets are reviewed for impairment whenever events or circumstances indicate the carrying amount of an asset group may not be recoverable.

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 Sheets. Advance conditional payments are not insured. Interest is generally paid by the Association on such accounts at rates established by the board of directors.

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

   Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC plan direct the placement of their employers' contributions, 5.0 percent of eligible pay for the year ended December 31, 2023, made on their behalf into various investment alternatives.

   The structure of the District's DB plan is characterized as multi-employer, since neither the assets, liabilities, nor costs of the plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. The Association recognized pension costs for the DC plan of $243,934, $251,675, and $239,262 for the years ended December 31, 2023, 2022, and 2021, respectively. For the DB plan, the Association recognized pension costs of $70,294, $117,110, and $175,036 for the years ended December 31, 2023, 2022, and 2021, respectively.

   The Association also participates in the Farm Credit Benefits Alliance 401(k) Plan, which requires the associations to match 100 percent of employee contributions up to 3.0 percent of eligible earnings and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The Association's contributions to the 401(k) plan were $181,370, $185,635, and $177,898 for the years ended December 31, 2023, 2022, and 2021, respectively.

   In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities on the Consolidated Balance Sheets. The other postretirement benefits program is closed to new participants. Eligibility applies to those hired prior to January 1, 2005.

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 cooperative dividends 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 cooperative dividends. The Association distributes patronage on the basis of book income. Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the Association and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (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.

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 14, "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.

NOTE 3 — LOANS AND ALLOWANCE FOR CREDIT LOSSES ON LOANS:

A summary of loans as of December 31 follows:

	2023		2022		2021	
Loan Type	**Amount**	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 667,143,184**	**93.3%**	$ 618,100,967	92.4%	$ 611,698,531	92.7%
Rural residential real estate	**24,750,615**	**3.5%**	26,408,451	4.0%	30,900,995	4.7%
Production and intermediate-term	**12,536,869**	**1.8%**	12,376,486	1.8%	12,038,644	1.8%
Agribusiness:						
Processing and marketing	**8,634,143**	**1.2%**	10,974,072	1.6%	4,382,896	0.7%
Farm-related business	**1,380,371**	**0.2%**	1,171,210	0.2%	747,277	0.1%
Lease receivables	**259,779**	**0.0%**	289,152	0.0%	303,993	0.0%
Total	**$ 714,704,961**	**100.0%**	$ 669,320,338	100.0%	$ 660,072,336	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, 2023:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 13,864,715	$ 36,332,282	$ -	$ -	$ 13,864,715	$ 36,332,282
Agribusiness	5,902,058	1,284,670	-	-	5,902,058	1,284,670
Total	$ 19,766,773	$ 37,616,952	$ -	$ -	$ 19,766,773	$ 37,616,952

Geographic Distribution

The following percentages are based on the borrower's physical location, the borrower's headquarter location, or the physical location of the underlying collateral where applicable:

County	**2023**	2022	2021
Collin	**11.2%**	11.1%	10.1%
Anderson	**9.3%**	10.4%	11.3%
Hunt	**8.5%**	8.9%	9.4%
Cherokee	**8.4%**	8.7%	8.3%
Henderson	**6.0%**	4.9%	5.1%
Smith	**4.8%**	5.5%	5.7%
Kaufman	**3.5%**	2.4%	2.2%
Grayson	**3.4%**	3.3%	3.4%
Fannin	**3.3%**	3.4%	3.4%
Rusk	**2.4%**	2.4%	2.3%
Angelina	**2.3%**	2.1%	2.3%
Hopkins	**1.6%**	1.6%	1.4%
Bastrop	**1.6%**	0.0%	0.0%
Ellis	**1.5%**	0.9%	1.0%
Nacogdoches	**1.5%**	1.8%	1.9%
Van Zandt	**1.4%**	1.6%	1.7%
Parker	**1.4%**	1.6%	1.7%
Shelby	**1.3%**	1.2%	1.0%
Palo Pinto	**1.3%**	1.5%	1.6%
Cooke	**1.3%**	1.4%	1.2%
San Augustine	**1.3%**	1.4%	1.2%
Wood	**1.2%**	1.1%	1.0%
Denton	**1.1%**	1.4%	1.1%
Lamar	**1.0%**	1.0%	1.0%
Other Counties	**17.3%**	17.6%	18.2%
Other States	**2.1%**	2.8%	2.5%
Totals	**100.0%**	100.0%	100.0%

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

	2023		2022		2021	
Operation/Commodity	**Amount**	**%**	Amount	%	Amount	%
Livestock, except dairy and poultry	**$ 270,604,304**	**37.9%**	$ 235,178,179	35.1%	$ 233,237,861	35.3%
Field crops except cash grains	**108,506,809**	**15.2%**	103,809,601	15.5%	105,772,205	16.0%
Timber	**104,232,772**	**14.6%**	98,536,814	14.7%	98,071,106	14.9%
General farms, primarily crops	**67,023,863**	**9.4%**	61,091,510	9.1%	50,986,286	7.7%
Hunting, trapping and game propagation	**51,534,010**	**7.2%**	55,893,405	8.4%	53,584,282	8.1%
Rural home loans	**50,347,584**	**7.0%**	53,923,435	8.1%	57,701,210	8.7%
Poultry and eggs	**16,733,722**	**2.3%**	17,742,572	2.7%	18,137,341	2.8%
Cash grains	**13,956,141**	**2.0%**	8,054,311	1.2%	6,281,109	1.0%
Animal specialties	**8,098,355**	**1.1%**	10,869,106	1.6%	12,177,216	1.8%
Lumber and wood products, except furniture	**5,902,058**	**0.8%**	6,152,900	0.9%	6,373,964	1.0%
Agricultural services	**3,241,280**	**0.5%**	3,381,779	0.5%	7,597,358	1.2%
Other	**14,524,063**	**2.0%**	14,686,726	2.2%	10,152,398	1.5%
Total	**$ 714,704,961**	**100.0%**	$ 669,320,338	100.0%	$ 660,072,336	100.0%

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

To mitigate the risk of loan losses, the Association has in the past obtained loan guarantees in the form of standby commitments to purchase qualifying loans from Farmer Mac through an arrangement with the Bank. The agreements, which will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of defaults (typically four months past due), subject to certain conditions. At December 31, 2023, and 2022, there were no loans guaranteed by these commitments. At December 31, 2021, loans totaling $945,437 were guaranteed by these commitments. Fees paid for these guarantees totaled $257, $4,270, and $9,033 in 2023, 2022, and 2021, respectively, and are included in "other noninterest expense."

Credit Quality

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

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

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

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

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

	Term Loans Amortized Cost by Origination Year					
	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Total
Real estate mortgage						
Acceptable	$ 105,411,035	$ 107,259,507	$ 156,186,016	$ 279,604,405	$ -	$ 648,460,963
OAEM	-	73,502	2,403,409	2,015,424	-	4,492,335
Substandard/Doubtful	10,972,650	105,533	1,626,982	1,484,721	-	14,189,886
	$ 116,383,685	$ 107,438,542	$ 160,216,407	$ 283,104,550	$ -	$ 667,143,184
Rural residential real estate						
Acceptable	$ 1,272,251	$ 1,445,142	$ 4,599,569	$ 17,340,658	$ -	$ 24,657,620
OAEM	-	-	-	89,568	-	89,568
Substandard/Doubtful	-	-	-	3,427	-	3,427
	$ 1,272,251	$ 1,445,142	$ 4,599,569	$ 17,433,653	$ -	$ 24,750,615
Production and intermediate-term						
Acceptable	$ 1,619,020	$ 2,220,867	$ 1,560,069	$ 907,597	$ 5,016,758	$ 11,324,311
OAEM	208,675	-	-	-	512,965	721,640
Substandard/Doubtful	-	-	37,953	452,965	-	490,918
	$ 1,827,695	$ 2,220,867	$ 1,598,022	$ 1,360,562	$ 5,529,723	$ 12,536,869
Agribusiness						
Acceptable	$ -	$ 30,166	$ -	$ 8,632,454	$ 1,351,405	$ 10,014,025
OAEM	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	489	-	489
	$ -	$ 30,166	$ -	$ 8,632,943	$ 1,351,405	$ 10,014,514
Lease receivables						
Acceptable	$ -	$ -	$ -	$ 259,779	$ -	$ 259,779
OAEM	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-
	$ -	$ -	$ -	$ 259,779	$ -	$ 259,779
Total Loans						
Acceptable	$ 108,302,306	$ 110,955,682	$ 162,345,654	$ 306,744,893	$ 6,368,163	$ 694,716,698
OAEM	208,675	73,502	2,403,409	2,104,992	512,965	5,303,543
Substandard/Doubtful	10,972,650	105,533	1,664,935	1,941,602	-	14,684,720
	$ 119,483,631	**$ 111,134,717**	**$ 166,413,998**	**$ 310,791,487**	**$ 6,881,128**	**$ 714,704,961**

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

	2023	2022	2021
Real estate mortgage			
Acceptable	**97.2 %**	99.8 %	99.3 %
OAEM	**0.7**	0.1	0.5
Substandard/doubtful	**2.1**	0.1	0.2
	100.0	100.0	100.0
Rural residential real estate			
Acceptable	**99.6**	99.6	99.9
OAEM	**0.4**	0.4	-
Substandard/doubtful	**-**	-	0.1
	100.0	100.0	100.0
Production and intermediate-term			
Acceptable	**90.3**	99.6	98.5
OAEM	**5.8**	-	0.9
Substandard/doubtful	**3.9**	0.4	0.6
	100.0	100.0	100.0
Processing and marketing			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Farm-related business			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Lease receivables			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Total Loans			
Acceptable	**97.2**	99.8	99.3
OAEM	**0.7**	0.1	0.5
Substandard/doubtful	**2.1**	0.1	0.2
	100.0 %	100.0 %	100.0 %

Implementation of CECL in 2023 changed the reporting in this table. The column for 2023 excludes the related accrued interest, while previous years of 2022 and 2021 include related accrued interest in each category. Accrued interest receivable on loans of $3,613,887, $2,967,626, and $2,560,938 at December 31, 2023, 2022, and 2021, respectively, have been excluded from the amortized cost of loans and reported separately on the Consolidated Balance Sheets.

Nonperforming assets (including related accrued interest for 2022 and 2021) and related credit quality statistics are as follows:

	December 31, 2023	December 31, 2022	December 31, 2021
Nonaccrual loans:			
Real estate mortgage	**$ 13,483,868**	$ 103,006	$ 158,892
Rural residential real estate	**3,427**	5,730	35,836
Agribusiness	**453,454**	-	-
Total nonaccrual loans	**13,940,749**	108,736	194,728
Accruing loans 90 days or more past due:	**-**	-	-
Other property owned	**-**	-	-
Total nonperforming assets	**$ 13,940,749**	$ 108,736	$ 194,728
Nonaccrual loans as a percentage of total loans	**1.95%**	0.02%	0.03%
Nonperforming assets as a percentage of total loans and other property owned	**1.95%**	0.02%	0.03%
Nonperforming assets as a percentage of capital	**13.67%**	0.11%	0.20%

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

	December 31, 2023			**Interest Income Recognized For the Year Ended December 31, 2023**
	Amortized Cost with Allowance	**Amortized Cost without Allowance**	**Total**	
Nonaccrual loans:				
Real estate mortgage	$ -	$ 13,483,868	$ 13,483,868	$ 2,153
Rural residential real estate	3,427	-	3,427	-
Agribusiness	452,965	489	453,454	-
Total nonaccrual loans	**$ 456,392**	**$ 13,484,357**	**$ 13,940,749**	**$ 2,153**

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

December 31, 2023:	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or less than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 827,836**	**$ 230,426**	**$ 1,058,262**	**$ 666,084,922**	**$ 667,143,184**	**$ -**
Rural residential real estate	**441,863**	**-**	**441,863**	**24,308,752**	**24,750,615**	**-**
Production and intermediate-term	**-**	**-**	**-**	**12,536,869**	**12,536,869**	**-**
Processing and marketing	**-**	**489**	**489**	**8,633,654**	**8,634,143**	**-**
Farm-related business	**-**	**-**	**-**	**1,380,371**	**1,380,371**	**-**
Lease receivables	**-**	**-**	**-**	**259,779**	**259,779**	**-**
Total	**$ 1,269,699**	**$ 230,915**	**$ 1,500,614**	**$ 713,204,347**	**$ 714,704,961**	**$ -**

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

December 31, 2022:	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 325,094	$ 103,006	$ 428,100	$ 620,342,661	$ 620,770,761	$ -
Rural residential real estate	95,553	-	95,553	26,379,059	26,474,612	-
Production and intermediate-term	-	-	-	12,566,913	12,566,913	-
Processing and marketing	-	-	-	10,995,043	10,995,043	-
Farm-related business	-	-	-	1,190,523	1,190,523	-
Lease receivables	-	-	-	290,112	290,112	-
Total	$ 420,647	$ 103,006	$ 523,653	$ 671,764,311	$ 672,287,964	$ -

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	$ 866,388	$ 18,035	$ 884,423	$ 613,123,833	$ 614,008,256	$ -
Rural residential real estate	174,675	-	174,675	30,799,134	30,973,809	-
Production and intermediate-term	-	-	-	12,198,116	12,198,116	-
Processing and marketing	-	-	-	4,392,238	4,392,238	-
Farm-related business	-	-	-	755,930	755,930	-
Lease receivables	-	-	-	304,925	304,925	-
Total	$ 1,041,063	$ 18,035	$ 1,059,098	$ 661,574,176	$ 662,633,274	$ -

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

Loan Modifications to Borrowers Experiencing Financial Difficulties

Upon adoption of the CECL accounting guidance, creditors are required to disclose specific modifications with borrowers that are experiencing financial difficulty. As of December 31, 2023, the Association had no modified loans with borrowers experiencing financial difficulties.

Troubled Debt Restructurings

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

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

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Troubled debt restructurings:				
Real estate mortgage	$ 82,001	$ 95,835	$ 12,688	$ 18,035
Total	$ 82,001	$ 95,835	$ 12,688	$ 18,035

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

Allowance for Credit Losses

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

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

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Rural Residential Real Estate	Leases Receivables	Total
Allowance for Credit Losses on Loans:						
Balance at December 31, 2022	$ 2,477,067	$ 1,436,813	$ 1,573,477	$ 18,168	$ -	$ 5,505,525
Charge-offs	-	-	-	-	-	-
Recoveries	24,000	40,561	3,658	-	-	68,219
Provision for credit losses on loans	-	185,252	-	-	-	185,252
Balance at December 31, 2023	**$ 2,501,067**	**$ 1,662,626**	**$ 1,577,135**	**$ 18,168**	**$ -**	**$ 5,758,996**
Allowance for Credit Losses on Unfunded Commitments:						
Balance at December 31, 2022	$ 100,000	$ -	$ -	$ -	$ -	$ 100,000
Provision for unfunded commitments	-	-	-	-	-	-
Balance at December 31, 2023	**$ 100,000**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 100,000**

The allowance for credit losses on loans as of December 31, 2023, was $5,573,744, reflecting an increase of $68,219 from December 31, 2022. The increase was due to recoveries. The adoption of the CECL accounting guidance was not material to the allowance for credit losses.

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

Allowance for Credit Losses - Prior to CECL Adoption

A summary of changes in the allowance for credit losses on loans by portfolio segment for the years ended December 31, 2022, and December 31, 2021, are as follows:

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Rural Residential Real Estate	Lease Receivables	Total
Allowance for Credit Losses on Loans:						
Balance at December 31, 2021	$ 2,453,067	$ 1,392,078	$ 1,569,584	$ 18,168	$ -	$ 5,432,897
Charge-offs	-	-	-	-	-	-
Recoveries	24,000	44,735	3,893	-	-	72,628
Other	-	-	-	-	-	-
Balance at December 31, 2022	$ 2,477,067	$ 1,436,813	$ 1,573,477	$ 18,168	$ -	$ 5,505,525

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Rural Residential Real Estate	Lease Receivables	Total
Allowance for Credit Losses on Loans:						
Balance at December 31, 2020	$ 2,429,067	$ 1,315,368	$ 1,509,584	$ 18,168	$ -	$ 5,272,187
Charge-offs	-	-	-	-	-	-
Recoveries	24,000	76,710	-	-	-	100,710
Other	-	-	60,000	-	-	60,000
Balance at December 31, 2021	$ 2,453,067	$ 1,392,078	$ 1,569,584	$ 18,168	$ -	$ 5,432,897

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

NOTE 4 — LEASES

The components of lease expense were as follows:

Classification	**2023**	2022	2021
Operating lease cost	**$ 29,130**	$ 39,808	$ 71,056
Net lease cost	**$ 29,130**	$ 39,808	$ 71,056

Other information related to leases was as follows:

	2023	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows for operating leases	**$ 29,130**	$ 39,808	$ 71,056

Lease term and discount rate are as follows:

	2023	2022	2021
Weighted average remaining lease term in years			
Operating leases	**1.75**	2.16	1.52
Weighted average discount rate			
Operating leases	**2.84%**	2.84%	2.84%

During 2023, the Association leased office space in Athens and Nacogdoches. The Athens lease expired September 2023 and the Nacogdoches lease has a remaining term of two years. Lease expense was $29,130, $39,808, and $71,056 for 2023, 2022, and 2021, respectively.

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

	Operating Leases	
2024	$	16,207
2025		12,155
2026		-
2027		-
2028		-
Thereafter		-
Total lease payments	$	28,362

The right-of-use asset and lease liability associated with the Association's leases each totaled $27,638, $58,340, and $49,566 as of December 31, 2023, 2022, and 2021, respectively, and were included in other assets and other liabilities within the Consolidated Balance Sheets.

NOTE 5 — INVESTMENT IN THE FARM CREDIT BANK OF TEXAS

The investment in the Farm Credit Bank of Texas is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. Estimating the fair value of the Association's investment in the Farm Credit Bank of Texas is not practicable because the stock is not traded. The Association owned 2.4 percent, 2.4 percent, and 2.7 percent of the issued stock of the Bank as of December 31, 2023, 2022, and 2021, respectively. As of those dates, the Bank's assets totaled $37.3 billion, $36.0 billion, and $33.1 billion, and members' equity totaled $1.7 billion, $1.6 billion, and $2.0 billion, respectively. The Bank's earnings were $199.9 million, $269.9 million, and $254.6 million during 2023, 2022 and 2021. respectively.

NOTE 6 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2023	2022	2021
Building and improvements	**$ 6,589,343**	$ 5,738,275	$ 5,551,128
Land and improvements	**1,245,320**	1,077,068	1,059,768
Automobiles	**929,631**	937,576	880,475
Computer equipment and software	**772,894**	302,234	268,749
Construction in progress	**620,590**	395,185	2,600
Furniture and equipment	**377,041**	326,292	321,095
	10,534,819	8,776,630	8,083,815
Accumulated depreciation	**(3,228,566)**	(2,872,921)	(2,609,509)
Total	**$ 7,306,253**	$ 5,903,709	$ 5,474,306

NOTE 7 — OTHER PROPERTY OWNED, NET:

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

	2023	2022	2021
Gain on sale, net	**$ -**	$ 1,060	$ 248,642
Operating expense, net	**-**	(401)	(6,415)
Net gain on other property owned	**$ -**	$ 659	$ 242,227

As of December 31, 2023, the Association did not hold any acquired property.

NOTE 8 — OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	2023	2022	2021
Prepaid captive insurance premiums	**$ 251,057**	$ 272,604	$ 247,641
Prepaid expenses	**187,163**	171,981	70,825
Other accounts receivable, net	**7,200**	(12,810)	(10,009)
Other, net	**109,048**	125,191	114,991
Total	**$ 554,468**	$ 556,966	$ 423,448

Other liabilities comprised the following at December 31:

	2023	2022	2021
Accumulated postretirement benefit obligation	**$ 1,381,320**	$ 1,311,660	$ 1,651,360
Other accrued expenses, net	**2,272,067**	2,016,008	2,117,863
FCS premium payable	**993,702**	1,074,624	837,214
Other, net	**232,432**	265,908	251,199
Total	**$ 4,879,521**	$ 4,668,200	$ 4,857,636

NOTE 9 — NOTE PAYABLE TO THE BANK:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process. The Association's indebtedness to the Bank represents borrowings by the Association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a general financing agreement (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, 2026, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The total amount and the weighted average interest rate of the Association's direct loan from the Bank at December 31, 2023, 2022, and 2021, was $619,064,377 at 3.29 percent, $572,082,121 at 2.52 percent, and $568,220,382 at 2.00 percent, respectively.

The Association's indebtedness to the Bank represents borrowing by the Association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a general financing agreement (GFA). As of December 31, 2023, the Association was in default of two of the covenants of the GFA. The Bank waived the covenant violations.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition.

At December 31, 2023, 2022, and 2021, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2023, was $716,414,544, as defined by the GFA.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt, and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the 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 years ended December 31, 2023, 2022, and 2021, the Association was not subject to remedies associated with the covenants in the GFA.
Other than the Association's funding relationship with the Bank, the Association has no other uninsured or insured debt.

NOTE 10 — MEMBERS' EQUITY:

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

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

In accordance with the Act and the Association's capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. The investment in Class B capital stock (for farm loans) or participation certificates (for rural home and farm-related business loans) is equal to 2.0 percent of the loan amount, up to a maximum amount of $1,000 per individual customer or entity versus the previous requirement of 2.0 percent of the holder's aggregate loan balance outstanding, or a maximum of $1,000 per individual loan.

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

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

Each owner of Class B capital stock is entitled to a single vote, 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 C stock. Class C 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 C shares is made solely at the discretion of the Association's board of directors. At December 31, 2023, 2022, and 2021, the Association had no Class C 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 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.

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

Consolidated Net Earnings Period Ended December 31:	Date Declared	Date to be Paid	Declared Cooperative Dividend
2023	**January 2024**	**March 2024**	**$ 4,011,757**
		Total 2023 Period	**$ 4,011,757**
2022	January 2023	March 2023	$ 6,435,520
		Total 2022 Period	$ 6,435,520
2021	January 2022	March 2022	$ 4,319,303
		Total 2021 Period	$ 4,319,303

As of December 31, 2023, the Association is not prohibited from retiring stock or distributing earnings; furthermore, neither the board nor senior management knows of any such prohibitions that may apply during the subsequent fiscal year.

The Farm Credit Administration sets minimum regulatory capital requirements for banks and associations. The following sets forth the regulatory capital ratio requirements and ratios as of December 31, 2023:

Risk-weighted:	**Regulatory Minimums**	**Regulatory Minimums with Buffer**	**As of December 31, 2023**
Common equity tier 1 ratio	4.50%	7.00%	12.96%
Tier 1 capital ratio	6.00%	8.50%	12.96%
Total capital ratio	8.00%	10.50%	13.78%
Permanent capital ratio	7.00%	7.00%	13.07%
Non-risk-weighted:			
Tier 1 leverage ratio	4.00%	5.00%	12.73%
UREE leverage ratio	1.50%	1.50%	12.36%

Risk-weighted assets have been defined by FCA Regulations as the Consolidated Balance Sheet assets and off-balance -sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes, which generally have the impact of increasing risk-weighted assets (decreasing risk-based regulatory capital ratios), were as follows:

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

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

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

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of seven years, allocated equities held for a minimum of seven years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-weighted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-weighted assets.
- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 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-weighted assets.
- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-weighted assets.
- Tier 1 leverage ratio is tier 1 capital (at least 1.5 percent must be URE and URE equivalents), including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions, including the amount of allocated investments in other System 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-weighted capital, based on 90-day average balances, were as follows at December 31, 2023:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 98,725,310	$ 98,725,310	$ 98,725,310	$ 98,725,310
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	2,611,868	2,611,868	2,611,868	2,611,868
Allowance for credit losses on loans and reserve for credit losses subject to certain limitations	-	-	5,670,195	-
*Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(11,440,805)	(11,440,805)	(11,440,805)	(11,440,805)
	$ 89,896,373	$ 89,896,373	$ 95,566,568	$ 89,896,373
Denominator:				
Risk-adjusted assets excluding allowance	$ 704,844,849	$ 704,844,849	$ 704,844,849	$ 704,844,849
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(11,440,805)	(11,440,805)	(11,440,805)	(11,440,805)
Allowance for credit losses on loans	-	-	-	(5,570,195)
	$ 693,404,044	$ 693,404,044	$ 693,404,044	$ 687,833,849

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

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

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	$ 98,725,310	$ 98,725,310
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	2,611,868	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(11,440,805)	(11,440,805)
	$ 89,896,373	$ 87,284,505
Denominator:		
Total Assets	$ 719,260,783	$ 719,260,783
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(13,149,430)	(13,149,430)
	$ 706,111,353	$ 706,111,353

An adequate level of capital is necessary for the Association to offer competitive loan products, generate earnings, withstand economic duress, and sustain growth. It is the intent of the Association board to manage the Association's capital position to support its business objectives while recognizing that the accumulation of excess capital is a direct cost to shareholders. Therefore, the establishment of the Association's capital requirement must reach a balance between the amount of capital necessary to cover business risks and the level that creates long-term value to the shareholder.

The Association has established a capital planning process that provides an objective basis for determining its capital requirement. This planning process incorporates the income, expense, capital, and business goal projections for the Association and the financial performance standards of the Bank. The Association's management, the board, and the Bank monitor the Association's capital ratios, asset quality, and earnings in order to gauge safety and soundness.

The board has established minimum capital goals that achieve regulatory minimum plus the buffer in Total Regulatory Capital (TRC), Tier 1 Capital (T1), Common Equity Tier 1 Capital (CET1), Unallocated Retained Earnings (URE), and URE Equivalents. Current projections support the fact that the Association will be able to maintain new loan volume, support existing loan portfolio risk, and continue to maintain capital levels. However, in the event that capital for the Association falls below the minimum goal, the board and management have evaluated ways to increase its capital position and would employ one or more of these alternatives to increase the capital position to achieve the minimum levels established by 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 B stock and participation certificates outstanding at a par value of $5 per share:

	2023	2022	2021
Class B stock	**475,398**	482,646	486,229
Participation certificates	**47,891**	50,245	57,276
Total	**523,289**	532,891	543,505

An additional component of equity is accumulated other comprehensive income (loss), which is reported for the years ended December 31 as follows:

	Accumulated Other Comprehensive Income (Loss)		
	2023	2022	2021
Nonpension postretirement benefits	**$ 100,437**	$ 94,044	$ (310,037)

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

	2023	2022	2021
Accumulated other comprehensive income (loss) at January 1	**$ 94,044**	$ (310,037)	$ (346,227)
Actuarial gains	**12,809**	388,091	16,844
Amortization of prior service credit included in salaries and employee benefits	**(6,416)**	(6,416)	(6,416)
Amortization of actuarial loss included in other noninterest expense	**-**	22,406	25,762
Other comprehensive income	**6,393**	404,081	36,190
Accumulated other comprehensive income (loss) at December 31	**$ 100,437**	$ 94,044	$ (310,037)

NOTE 11 — INCOME TAXES:

There was no provision for income taxes for 2023, 2022, and 2021. The 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:

	2023	2022	2021
Federal tax at statutory rate	**$ 1,453,145**	$ 2,032,298	$ 2,014,731
Effect of nontaxable FLCA subsidiary	**(2,218,359)**	(2,424,889)	(2,182,120)
Change in valuation allowance	**765,214**	392,591	156,607
Other	**-**	-	10,782
Provision for income taxes	**$ -**	$ -	$ -

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

	2023	2022	2021
Deferred Tax Assets			
Allowance for credit losses on loans	**$ 730,916**	$ 722,155	$ 712,760
Loss carryforwards	**7,381,106**	6,663,557	6,280,361
Gross deferred tax assets	**8,112,022**	7,385,712	6,993,121
Deferred tax asset valuation allowance	**(8,112,022)**	(7,385,712)	(6,993,121)
Deferred Tax Liabilities			
Gross deferred tax liabilities	**-**	-	-
Net deferred tax asset (liability)	**$ -**	$ -	$ -

The calculation of tax assets and liabilities involves various management estimates and assumptions as to the future taxable earnings.

The Association carried a deferred tax asset of $8,112,023, $7,385,712, and $6,993,121 as of December 31, 2023, 2022, and 2021, respectively. This asset results from the establishment of an allowance for credit losses on loans on the short-term loan portfolio and a net operating loss carryforward for Heritage Production Credit, PCA, as shown above. The Association has recorded a full valuation allowance against the gross deferred tax asset for the years ending December 31, 2023, 2022, and 2021, based on management's estimate that it is more likely than not (over 50 percent probability) that the deferred tax asset will not be realized. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly. The Association's net operating loss carryforward at December 31, 2023, approximates $35,148,124. Of this amount, $25,550,135 will begin to expire in 2024, and $9,597,989 has an indefinite carryforward period.

NOTE 12 — EMPLOYEE BENEFIT PLANS:

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

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

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

There were no Supplemental 401(k) plans to active employees during 2023, 2022 and 2021.

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

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

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

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

	2023	2022	2021
Funded status of plan	**73.3** %	70.9 %	70.5 %
Association's contribution	**$ 42,335**	$ 117,110	$ 175,036
Percentage of Association's contribution to total contributions	**1.1** %	1.1 %	1.2 %

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

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. The other postretirement benefits program is closed to new participants. Eligibility applies to those hired prior to January 1, 2005.

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

Retiree Welfare Benefit Plans

Disclosure Information Related to Retirement Benefits	**2023**	2022	2021
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	**$ 1,314,215**	$ 1,651,360	$ 1,618,224
Service cost	**24,804**	35,226	38,917
Interest cost	**67,209**	51,282	44,707
Plan participants' contributions	**2,731**	3,505	3,319
Actuarial gain	**(12,809)**	(388,091)	(16,844)
Benefits paid	**(35,343)**	(39,067)	(36,963)
Accumulated postretirement benefit obligation, end of year	**$ 1,360,807**	$ 1,314,215	$ 1,651,360
Change in Plan Assets			
Plan assets at fair value, beginning of year	**$ -**	$ -	$ -
Company contributions	**32,612**	35,562	33,644
Plan participants' contributions	**2,731**	3,505	3,319
Benefits paid	**(35,343)**	(39,067)	(36,963)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Funded status of the plan	**$ (1,360,807)**	$ (1,314,215)	$ (1,651,360)
Amounts Recognized on the Balance Sheets			
Other liabilities	**$ (1,360,807)**	$ (1,314,215)	$ (1,651,360)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial (gain) loss	**$ (80,936)**	$ (68,127)	$ 342,370
Prior service credit	**(19,501)**	(25,917)	(32,333)
Total	**$ (100,437)**	$ (94,044)	$ 310,037
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	**12/31/2023**	12/31/2022	12/31/2021
Discount rate	**5.50%**	5.20%	3.15%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**7.50%/8.40%**	7.20%/7.70%	6.80%/6.00%
Ultimate health care cost trend rate	**4.50%**	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	**2034/2034**	2031/2031	2030/2030

Total Cost	**2023**	2022	2021
Service cost	**$ 24,804**	$ 35,226	$ 38,917
Interest cost	**67,209**	51,282	44,707
Amortization of:			
Unrecognized prior service credit	**(6,416)**	(6,416)	(6,416)
Unrecognized net loss	**-**	22,406	25,762
Net postretirement benefit cost	**$ 85,597**	$ 102,498	$ 102,970
Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income			
Net actuarial gain	**$ (12,809)**	$ (388,091)	$ (16,844)
Amortization of net actuarial loss	**-**	(22,406)	(25,762)
Amortization of prior service credit	**6,416**	6,416	6,416
Total recognized in other comprehensive income	**$ (6,393)**	$ (404,081)	$ (36,190)
AOCI Amounts Expected to be Amortized Into Expense in 2024			
Unrecognized prior service credit	**$ (6,416)**	$ (6,416)	$ (6,416)
Unrecognized net loss	**-**	-	22,406
Total	**$ (6,416)**	$ (6,416)	$ 15,990
Weighted-Average Assumptions Used to Determine Benefit Cost			
Measurement date	**12/31/2022**	12/30/2021	12/31/2020
Discount rate	**5.20%**	3.15%	2.80%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**7.20%/7.70%**	6.80%/6.00%	6.60%/6.20%
Ultimate health care cost trend rate	**4.50%**	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	**2031/2031**	2030/2030	2029

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)	
Fiscal 2024	**$ 40,797**
Fiscal 2025	**48,808**
Fiscal 2026	**57,138**
Fiscal 2027	**66,136**
Fiscal 2028	**75,931**
Fiscal 2029–2033	**483,482**
Expected Contributions	
Fiscal 2024	**$ 40,797**

NOTE 13 — RELATED PARTY TRANSACTIONS:

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

Total loans to such persons at December 31, 2023, 2022, and 2021 for the Association amounted to $6,566,856, $6,494,563, and $5,544,060, respectively. During 2023, 2022, and 2021, $3,157,245, $2,700,541, and $2,281,387 of new loans were made, and repayments totaled $3,084,952, $1,748,119, and $3,410,127, respectively. In the opinion of management, no such loans outstanding at December 31, 2023, 2022, and 2021 involved more than a normal risk of collectability.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems and accounting services, and allocations of expenses incurred by the Bank and passed through to the District associations, such as FCSIC expenses. The Bank charges the individual District associations directly for these services based on each association's proportionate usage. These expenses totaled $1,076,416, $1,132,592, and $886,831 in 2023, 2022, and 2021, respectively.

The Association received patronage payments from the Bank and other District associations totaling $2,263,302, $4,261,690, and $3,873,740 during 2023, 2022, and 2021, respectively.

NOTE 14 — FAIR VALUE MEASUREMENTS:

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

Assets measured at fair value on a recurring basis at December 31, 2023, 2022, and 2021, for each of the fair value hierarchy values are summarized below:

December 31, 2023	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Assets held in nonqualified benefit trusts	**$ 83,915**	**$ -**	**$ -**	**$ 83,915**
Total assets	**$ 83,915**	**$ -**	**$ -**	**$ 83,915**

December 31, 2022	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 63,500	$ -	$ -	$ 63,500
Total assets	$ 63,500	$ -	$ -	$ 63,500

December 30, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 65,760	$ -	$ -	$ 65,760
Total assets	$ 65,760	$ -	$ -	$ 65,760

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

December 31, 2023	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans	**$ -**	**$ -**	**$ 267,713**	**$ 267,713**
Other property owned	**-**	**-**	**-**	**-**

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

December 30, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ -	$ -
Other property owned	-	-	-	-

For the years ended December 31, 2023, 2022, and 2021, the Association did not have any nonfinancial assets measured at fair value on a nonrecurring basis and did not have any nonfinancial liabilities that were assessed at fair value on a recurring or nonrecurring basis.

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

	December 31, 2023 Fair Value Measurement Using				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:					
Cash	**$ 7,236**	**$ 7,236**	**$ -**	**$ -**	**$ 7,236**
Net loans	**708,678,252**	**-**	**-**	**654,818,872**	**654,818,872**
Total Assets	**$ 708,685,488**	**$ 7,236**	**$ -**	**$ 654,818,872**	**$ 654,826,108**
Liabilities:					
Note payable to Bank	**$ 619,064,377**	**$ -**	**$ -**	**$ 572,412,366**	**$ 572,412,366**
Total Liabilities	**$ 619,064,377**	**$ -**	**$ -**	**$ 572,412,366**	**$ 572,412,366**

	December 31, 2022 Fair Value Measurement Using				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 10,710	$ 10,710	$ -	$ -	$ 10,710
Net loans	663,814,813	-	-	587,006,097	587,006,097
Total Assets	$ 663,825,523	$ 10,710	$ -	$ 587,006,097	$ 587,016,807
Liabilities:					
Note payable to Bank	$ 572,082,121	$ -	$ -	$ 506,432,102	$ 506,432,102
Total Liabilities	$ 572,082,121	$ -	$ -	$ 506,432,102	$ 506,432,102

	December 31, 2021 Fair Value Measurement Using				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 39,628	$ 39,628	$ -	$ -	$ 39,628
Net loans	654,639,439	-	-	644,122,269	644,122,269
Total Assets	$ 654,679,067	$ 39,628	$ -	$ 644,122,269	$ 644,161,897
Liabilities:					
Note payable to Bank	$ 568,220,382	$ -	$ -	$ 559,166,722	$ 559,166,722
Total Liabilities	$ 568,220,382	$ -	$ -	$ 559,166,722	$ 559,166,722

Uncertainty of Fair Value Measurements

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would have resulted in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default would have been accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Quoted market prices are generally not available for the instruments presented below. Accordingly, fair values are based on internal models that consider judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

Valuation Techniques

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

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.

Loans Evaluated for Impairment

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

Other Property Owned

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

NOTE 15 — COMMITMENTS AND CONTINGENCIES

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

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2023, commitments to extend credit to borrowers totaled $13,749,099. There were no commercial letters of credit outstanding.

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

NOTE 16 — REGULATORY ENFORCEMENT MATTERS

As of December 31, 2023, there were no cease-and-desist orders, temporary cease-and-desist orders, supervisory or other written agreements, notices of charges, prohibitions and removals of officers and directors, civil money penalties, and other enforcement matters that have or could have a significant impact on the financial statements. Refer to Note 10, “Members’ Equity,” for enforcement action taken, if any, with respect to regulatory capitalization.

NOTE 17 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

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

	2023				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 4,535**	**$ 4,446**	**$ 4,479**	**$ 4,315**	**$ 17,775**
(Provision for) reversal of loan loss	**-**	**-**	**-**	**(185)**	**(185)**
Noninterest expense, net	**(1,960)**	**(2,342)**	**(3,038)**	**(3,611)**	**(10,951)**
Net income	**$ 2,575**	**$ 2,104**	**$ 1,441**	**$ 519**	**$ 6,639**

	2022				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,368	$ 4,330	$ 4,317	$ 4,342	$ 17,357
(Provision for) reversal of loan losses	-	-	-	-	-
Noninterest expense, net	(1,863)	(2,070)	(2,027)	(1,732)	(7,692)
Net income	$ 2,505	$ 2,260	$ 2,290	$ 2,610	$ 9,665

	2021				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,112	$ 4,135	$ 4,204	$ 4,257	$ 16,708
(Provision for) reversal of loan losses	-	-	-	-	-
Noninterest expense, net	(1,726)	(1,985)	(1,932)	(1,477)	(7,120)
Net income	$ 2,386	$ 2,150	$ 2,272	$ 2,780	$ 9,588

NOTE 18 — SUBSEQUENT EVENTS:

In January of 2024, Chief Credit Officer, Charlotte Sellers, submitted her intent to retire, effective March 1,2024. As a result, Adam Davis was elevated to serve as the interim CCO.

In February of 2024, the Association identified two large relationships that required placement into nonaccrual status. Income for 2023 has been adjusted and reported for any unpaid interest accrued at year end related to the two relationships. The effect on these placements is also reflected in Note 3 related to the Uniform Loan Classification System.

The Association has evaluated subsequent events through February 22, 2024, which is the date the financial statements were issued or available to be issued and has determined that there were no other events requiring disclosure.

DISCLOSURE INFORMATION AND INDEX

(Unaudited)

Disclosures Required by Farm Credit Administration Regulations

DESCRIPTION OF BUSINESS

The description of the territory served, the persons eligible to borrow, the types of lending activities engaged in and the financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference 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

The Heritage Land Bank, ACA (Association) serves its 16-county territory through its main administrative and lending office at 4608 Kinsey Drive in Tyler, Texas. Additionally, there are nine branch lending offices located throughout the territory. The Association owns the office buildings in Athens, Fort Worth, Greenville, Lindale, Lufkin, McKinney, Palestine, and Tyler, free of debt. The Association leases the office building in Nacogdoches.

LEGAL PROCEEDINGS

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

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference from Note 10 to the consolidated financial statements, "Members' Equity," included in this annual report.

DESCRIPTION OF LIABILITIES

The description of liabilities required to be disclosed in this section is incorporated herein by reference from Note 9, "Note Payable to the Bank," Note 12, "Employee Benefit Plans," and in "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Notes 2 and 15 to the consolidated financial statements, "Summary of Significant Accounting Policies" and "Commitments and Contingencies," respectively, included in this annual report.

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

The Association's financial condition may be impacted by factors that affect the Farm Credit Bank of Texas (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 the 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's annual and quarterly stockholder reports can also be requested by emailing *fcb@farmcreditbank.com*. The annual and quarterly stockholder reports are also available on its website at *www.farmcreditbank.com*.

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter end and can be obtained by writing to Heritage Land Bank, ACA, 4608 Kinsey Drive, Tyler, Texas 75703 or calling (903) 534-4975. Copies of the Association's quarterly stockholder reports can also be accessed on the Association's website at *www.heritagelandbank.com*. The Association's annual stockholder report is available on its website 75 days after the fiscal year end. Copies of the Association's annual stockholder report can also be requested 90 days after the fiscal year end.

SELECTED FINANCIAL DATA

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

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

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

DIRECTORS AND SENIOR OFFICERS

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

Name	Position	Date Elected / Employed	Term Expires
Kevin Sampson	Chair	2006	2024
Roger Claxton	Vice-Chair	2010	2025
Bryan Pickens	Director-Elect	2019	2024
Gary W. Ray	Director-Elect	2019	2025
Jack S. Pullen	Director	1982	2024
James Tarrant, Jr.	Director	2009	2024
R. Scott Line	Director	2014	2023
John Holloway	Director	2019	2025
Jeff Striplin	Director	2020	2023
Mark Miller	CEO	2023	
Charlotte Sellers	CCO	2011	
Stephanie King	CFO	2023	
Heath Gattis	COO	2023	

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

Kevin Sampson, chair, is chief engineer for M.P. Industries, Inc. in Tyler, Texas, where he has been employed for more than 25 years. He runs a cow-calf operation in Smith County. Additionally, Mr. Sampson produces hay, forage, Tifton 85 sprigs, and timber. Mr. Sampson serves on the Smith County Appraisal District Agriculture Advisory Committee. He has served as a member of the Smith County Farm Bureau, as well as a resolutions committee member for the Texas Farm Bureau. He is a graduate of the University of Texas at Austin with a bachelor's degree in mechanical engineering. Mr. Sampson has served on the board of Heritage Land Bank since 2006.

Roger Claxton, vice-chair, owns and operates Claxton Farms, which consists primarily of a stocker cattle operation. Mr. Claxton is a retired agricultural science teacher. He serves on the board of the Hunt County Farm Bureau, Hunt County Junior Livestock Association, and Northeast Texas Farmers Co-op, is a member of the Texas and Southwestern Cattle Raisers Association, and is a lifetime member of the Vocational Agricultural Teachers Association of Texas. An elder of the Church of Christ, Mr. Claxton is a graduate of East Texas State University with bachelor's and master's degrees in agricultural economics. He and his wife, Kathryn, have been married for 45 years and have three grown children. Mr. Claxton has served on the board of Heritage Land Bank since 2010.

Bryan Pickens is a partner and broker associate with Republic Ranches, a full-service farm and ranch brokerage company serving clients across Texas, Oklahoma, Arkansas, Louisiana, Alabama, Colorado, and New Mexico. Mr. Pickens serves on the board of directors for the Texas Wildlife Association Foundation. He currently serves on the board for the Texas Freshwater Fisheries Center in Athens and is a former board member of the Texas Parks and Wildlife Foundation. He received his bachelor's degree from Vanderbilt University and his MBA from Southern Methodist University. He and his wife, Jennifer, are landowners in Henderson County and are the proud parents of four daughters. Mr. Pickens has served on the board of Heritage Land Bank since 2019.

Gary W. Ray is founder and owner of MODCO Insurance Agency Inc. He has 37 years of experience insuring oil and gas wells, ranches, and jets. He is a supporter and fundraiser for 4-H and FFA kids showing at the Fort Worth Stock Show and Rodeo, as well as past chairman and 33-year member of the Fort Worth Stock Show Syndicate, a founding member of the U Ol' Goats Committee, and co-founder of the Tallest Hog at the Trough Syndicate. Mr. Ray serves on the board of directors for Southwestern Exposition and Livestock Show and is a member of Port Bay Hunting and Fishing Club. Mr. Ray has served on the board of Heritage Land Bank since 2019.

Jack S. Pullen is a Texas A&M University graduate and a retired right-of-way agent with the Texas Department of Transportation.
He owns a cow-calf operation in Rockwall County specializing in breeding club calves and registered Hereford cattle. In addition, he is involved in real estate and hay and small grains production. Mr. Pullen has been a self-employed rancher for over 50 years. He is a member of Rockwall Lions Club, Texas Polled Hereford Association, Texas & Southwestern Cattle Raisers Association, Rockwall County Historical Society, Rockwall County Farm Bureau board of directors, a member of First Baptist Church of Rockwall, and a charter member of the Rockwall County A&M Club. In addition, he has served as past president of RCH Water Corporation, past president of Rockwall Youth Fair, past director of Texas Hereford Association, and a former city councilman for McLendon/Chisholm. Mr. Pullen has served on the board of Heritage Land Bank since 1982.

James Tarrant, Jr. has owned and operated Consolidated Wood Products in Bullard, Texas, for over 35 years. He is a former loan officer and credit analyst for North Texas PCA and AgriLand Farm Credit Services. Mr. Tarrant has served as a director for the Cherokee County Electric Co-op, North Cherokee Water Corp., Texas National Bank and Cherokee County Appraisal District, and served 12 years on the Jacksonville ISD School Board, including two years as president. He has also been a member of the Bullard Rotary Club. Among his other honors and distinctions, Mr. Tarrant is a 1989 graduate of the Texas Agricultural Lifetime Leadership Program, served on the 2002 Texas A&M College of Agriculture Development Council, was a delegate to the State Republican Convention, and was an adult Sunday school teacher for over 20 years. Mr. Tarrant graduated from Texas A&M University in 1979 with a degree in range science and agricultural economics. He and his wife, Meredith, have five grown children and eight grandchildren. Mr. Tarrant has served on the board of Heritage Land Bank since 2009.

R. Scott Line is owner and operator of Line Land and Cattle, LLC, a cow-calf operation in Cherokee County with approximately 300 head of cattle, excluding calves. He is a retired Certified Public Accountant and has been self-employed for over 30 years. Mr. Line is the previous owner of Map Production Co., Inc., a small, independent oil and gas company. He is a graduate of Texas Tech University with a bachelor's degree in accounting. Mr. Line is a director of Highland Park Estates HOA, a member of Texas and Southwestern Cattle Raisers Association, and a former member of the Texas State Society of CPAs. Mr. Line has served on the board of Heritage Land Bank since 2014.

John Holloway is the Live Operations Complex manager for Tyson Foods in Center, Texas. He has 27 years of poultry industry experience with Tyson Foods and Pilgrim's Pride. Mr. Holloway owns and operates six broiler houses for Tyson Foods. He also owns and manages a cow-calf operation and timber land. Mr. Holloway earned a bachelor's degree in poultry science from Texas A&M University. He serves as chairman of the board of the Shelby Soil and Water Conservation District. Mr. Holloway also previously served on the boards of the Attoyac Bayou Steering Committee and the Nacogdoches/Angelina Ground Water District. He and his wife, Chelsea, have two sons and are members of the First Baptist Church of Center, Texas. Mr. Holloway has served on the board of Heritage Land Bank since 2019.

Jeff Striplin is assistant water system manager – treatment for the North Texas Municipal Water District in Wylie, Texas, where he has worked for 28 years. He is also a first-generation rancher with a cow-calf operation on 115 acres and raises stocker calves, dairy heifer replacements, club lambs, and replacement ewes. Mr. Striplin serves on the Hunt County Farm Bureau board, Hunt County Fair and Junior Livestock Association board, is secretary of the Bland ISD School Board, and is past president of the Bland Youth Sports Association. He is also president of the Cotton Belt District of the Texas Water Utilities Association. Mr. Striplin is a former member of Texas Association of School Boards 2020 – 2021 Legislative Advisory Council, former assistant Area 45 director for District 50 of Toastmasters International, and also served on the Texas Farm Bureau resolutions committee. He is a member of Texas Farm Bureau, Northeast Texas Farmers Co-op, Texas and Southwestern Cattle Raisers Association, American Water Works Association, Texas Water Utilities Association, Water Environment Association of Texas, Water Environment Federation, Hunt County Junior Livestock Association, Texas Farm Bureau Natural Resources Advisory Committee, and Toastmasters International. He and his wife, Samantha, have two children. Previously, Mr. Striplin served on Heritage Land Bank's advisory and nominating committees. He has served on the board of Heritage Land Bank since 2020.

Mark Miller, Chief Executive Officer (CEO), assumed the role of president/chief executive officer for Texas Farm Credit on January 1, 2014. He had served in the same role for Texas AgFinance since January 1, 2013. Prior to this appointment, Mr. Miller served as executive vice president and chief credit officer. He has been with the organization since March 1989 when he accepted a position as loan officer and has also served as a branch manager and chief operations officer. Effective December 18, 2023, Mr. Miller was appointed chief executive officer of Heritage Land Bank as part of a joint management agreement approved by the boards of Texas Farm Credit and Heritage Land Bank. Mr. Miller is a graduate of Texas A&M University, as well as the Texas Agricultural Lifetime Leadership (TALL) program. He serves as an inside director to the FCCS board of directors and as a director for FarmLand Title, which is owned by FCCS.

William M. Tandy, Chief Executive Offer (CEO, retired), was employed by the Association on January 1, 2011. Mr. Tandy received his bachelor's degree in Business Finance from the University of Montana and his MBA from Southern Methodist University. He has worked in the banking industry for 40 years, serving as bank president and CEO for nearly 30 of those years. He has extensive experience in raising capital, working out problem loans, and managing regulatory relationships. He also worked in the liquidation division of the Federal Deposit Insurance Corporation, where he assisted and managed the reorganization and/or closing of numerous banks. He served as CEO until his retirement on December 5, 2023.

Charlotte Sellers, Chief Credit Officer (CCO), has been employed by the Association since February 2011. Mrs. Sellers received her bachelor's degree in Business Administration from Murray State University in Kentucky. She is also a graduate of the Economic Development Institute in Norman, Oklahoma. Mrs. Sellers has 20 years of banking experience in management, growing accrual loans as a CCO, commercial and residential lending, collections, working out problem assets, credit underwriting, and compliance.

Heath Gattis, Chief Operating Officer (COO), was employed by the Association in November of 2010 and was elevated to his current role in December of 2023. Mr. Gattis received his bachelor's degree in Business Administration-Finance from Texas A&M University in College Station, Texas, in 1992. He has worked in the banking industry for 30 years with experience in state bank supervision and auditing, CEO of a community bank, and roles in credit administration, credit underwriting, compliance, and direct lending. Mr. Gattis previously held the role of the Association's CFO until November 3, 2023.

Stephanie King, Chief Financial Officer (CFO), was employed by the Association in January 2013 as controller and was elevated to her current role in November 2023. Ms. King received her bachelor's degree in Accounting from Stephen F. Austin State University in Nacogdoches, Texas, in 1993. She has worked in the banking industry for 30 years with experience in national bank supervision and auditing, as well as roles in credit administration, servicing, and compliance.

COMPENSATION OF DIRECTORS

Directors were compensated for their service to the Association in the form of an honorarium for director meetings and committee meetings. Outside directors, the chair, and stockholder-elected directors were compensated at a rate of $1,000 per day, $800 per day, and $700 per day, respectively, and they were reimbursed for certain expenses incurred while representing the Association in an official capacity. Mileage for attending official meetings was paid at the IRS-approved rate of 65.5 cents per mile. A copy of the travel policy is available to stockholders of the Association upon request.

	Number of Days Served Associated With		
Director	**Board Meetings**	**Other Official Activities**	**Total Compensation in 2023**
Kevin Sampson	14	20	$ 27,100
Roger Claxton	14	23	30,300
Bryan Pickens	5	4	10,000
Gary W. Ray	14	17	26,600
Jack S. Pullen	14	18	25,300
James Tarrant, Jr.	13	15	19,600
R. Scott Line	14	14	20,300
John Holloway	14	17	20,450
Jeff Striplin	14	17	24,900
			$ 204,550

The aggregate compensation paid to directors in 2023, 2022, and 2021 was $204,550, $167,400, and $168,450, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows for 2023:

	Committee	
Director	**Audit / Compensation**	**Risk**
Kevin Sampson	$ 4,900	$ -
Roger Claxton	4,900	-
Bryan Pickens	-	1,400
Gary W. Ray	4,200	700
Jack S. Pullen	4,900	-
James Tarrant, Jr.	-	4,200
R. Scott Line	4,900	-
John Holloway	700	3,500
Jeff Striplin	-	4,200
	$ 24,500	$ 14,000

The aggregate amount of reimbursement for travel, subsistence, and other related expenses paid to directors and on their behalf was $117,693, $108,968, and $55,343 in 2023, 2022, and 2021, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Senior Officers

The compensation program of the Association should provide, in addition to attractive employee benefits, the administration of a salary plan including incentive compensation, which is consistent within the industry for the area.

The Association's board of directors believes that an integral part of the salary plan should be incentive compensation, which rewards employees for the overall financial success of the Association and their contribution to that success.

Senior officers, including the CEO, are eligible to participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) plan (the Plan). The Plan is a defined contribution plan and is sponsored by the AgFirst/FCBT Plan Sponsor Committee. This plan allows district employers to elect to participate in any or all of the following benefits:

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

The Association elected to participate in the above-mentioned benefit elections. There were no contributions or payments to/from the Supplemental 401(k) plan to active employees during 2023, 2022, or 2021.

The Association currently has no active employees participating in the defined benefit retirement plan (DB Plan).

Chief Executive Officer (CEO) Compensation Policy

CEO compensation in relation to salary and bonus are in similar proportion to previous years. The amount noted in "Other" was the result of a severance agreement in conjunction with retirement.

Summary Compensation Table

The following table summarizes the compensation paid to the CEO and all senior officers of the Association during 2023, 2022 and 2021. This may include other non-senior officers if their total compensation is within the top five highest paid employees. Amounts reflected in the table are presented in the year the compensation was earned.

Name of Individual or Number in Group[a]	Year	Salary[b]	Bonus[c]	Deferred/ Perquisite[d]	Other[e]	Total
William M. Tandy,						
CEO (retired)	**2023**	**$ 335,000**	**$ 80,000**	**$ 9,701**	**$ 594,798**	**$ 1,019,499**
	2022	325,000	80,000	10,378	-	415,378
	2021	316,009	75,000	9,483	-	400,492
Top Five Senior Officers						
	2023	**$ 838,000**	**$ 207,000**	**$ 32,692**	**$ -**	**$ 1,077,692**
	2022	810,000	177,000	29,193	-	1,016,193
	2021	754,022	173,300	24,935	-	952,257

[a] Aggregate number of senior officers/highly compensated individuals, excluding CEO.
[b] Gross salary, including retention plan compensation for certain senior officers.
[c] Bonuses paid within the first 30 days of the subsequent calendar year.
[d] Deferred/Perquisites include contributions to 401(k) and defined contribution plans, supplemental 401(k) discretionary contributions, automobile benefits, and premiums paid for life insurance.
[e] Amounts in the "Other" column include remuneration from a severance agreement in conjunction with retirement.

Disclosure of the compensation paid during 2023 to any senior officer or officer included in the table is available and will be disclosed to stockholders of the Association upon written request.

The CEO and senior officers of the Association are paid a salary and are eligible for incentive compensation based on the achievement of annual goals set by the board of directors. In setting salaries, the Association utilizes salary surveys to gauge the market value of benchmark jobs. This comparison of internal salary grades and ranges to salary survey data allows the Association to make any needed range adjustments to remain competitive in the labor market. All full-time employees are also eligible to participate in incentive compensation. The effective date of the incentive compensation shall be the fiscal year end of the Association. Payouts will occur no later than February of each year after confirmation and verification of results of the prior year by the board of directors. Branch office employees' incentive will be based on performance criteria related to their individual branches' profitability and individual performance evaluations. The Association considered profitability to include return on loan assets, loan growth, delinquency percentage, loan pricing, credit administration, and credit quality of the loan portfolio.

Corporate office employee incentive compensation is to reward those who support the lending staff and administration of the Association. The corporate office incentive will be based on overall Association performance standards, which include return on assets and equity, capital adequacy and efficiency ratios, loan portfolio credit quality and Association loan growth as well as each employee's individual performance evaluation. Corporate office employees include accounting, loan processing, credit analysts, technical support, the CFO, the COO, and the CCO. The CEO is excluded, and any incentive compensation will be determined separately by the board of directors, taking into account the overall performance of the Association and incentive compensation paid to employees.

Employees assigned Association automobiles reimburse the Association for personal miles at a board-established rate. Employees who use their personal automobiles for business purposes were reimbursed during 2023 at the IRS-approved rate of 65.5 cents per mile.

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

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

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 13 to the consolidated financial statements, "Related Party Transactions," included in this annual report.

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

The Association had no certain legal proceedings during the last five years that were material to the evaluation of the ability of any person who served as a director or was employed as a senior officer in 2023.

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 §621 of the FCA regulations governing this disclosure. Fees incurred for audit and tax services rendered by the independent auditors during the year ended December 31, 2023, were $54,489 and $6,750, respectively. No other services were rendered by the independent auditors.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of Henry & Peters, PC dated February 22, 2024, and the report of management in this annual report to stockholders, are incorporated herein by reference.

MEMBER/SHAREHOLDER PRIVACY

Members' nonpublic personal financial information is protected by Farm Credit Administration regulation. The Association's 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

Heritage Land Bank, ACA (Association) recognizes that adequate capital resources are a significant obstacle facing young, beginning, and small (YBS) farmers and ranchers. The Association is aware that the future success of America's agricultural and/or aquatic production is dependent on adding and retaining a new generation of producers who are well trained in production and marketing and have access to a steady source of financing. Since lending support to YBS operators is of utmost importance, the Association has designed a program with special underwriting criteria along with other enhancements. The Association continues to actively support other programs, events, scholarships, and educational activities that benefit young individuals who will become the next generation of agricultural providers.

The following are definitions for "young," "beginning," and "small" farmers and ranchers used by the Association:

Young Farmer and Rancher – A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the date the loan was originally made.

Beginning Farmer and Rancher – A farmer, rancher, or producer or harvester of aquatic products who has 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 and Rancher – A farmer, rancher, or producer or 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.

The Association provides quarterly and annual reports measuring achievement with respect to the Association's performance against YBS goals and the demographics of the territory it serves using USDA AgCensus data. The Association's YBS data for the 16 chartered counties serviced as compared to the 2017 USDA-NASS AgCensus data for 2023 and 2022 is shown below:

		Heritage Land Bank, ACA			
	2017 USDA AgCensus	**2023**	**% of Market Segment**	**2022**	**% of Market Segment**
Young Farmers	1,376	**486**	**35.3%**	506	36.8%
Beginning Farmers	9,339	**2,156**	**23.1%**	2,174	23.3%
Small Farmers	22,876	**2,692**	**11.8%**	2,752	12.0%

The Association's YBS loan activity for 2023 and 2022 is reflected in the following table:

	2023 Loan Figures		2022 Loan Figures		Increase (Decrease)		% Change	
	Total # of Loans	**Total Loan Volume**	**Total # of Loans**	**Total Loan Volume**	**Total # of Loans**	**Total Loan Volume**	**Total # of Loans**	**Total Loan Volume**
Young Farmers	**486**	**$107,617**	506	$112,458	(20)	$ (4,841)	-4.0%	-4.3%
Beginning Farmers	**2,156**	**$542,536**	2,174	$498,956	(18)	$ 43,580	-0.8%	8.7%
Small Farmers	**2,692**	**$621,924**	2,752	$577,301	(60)	$ 44,623	-2.2%	7.7%

In 2023, the Association projected a 3.0 percent, 2.0 percent, and 3.0 percent growth in number and volume of young, beginning, and small loans, respectively. On December 31, 2023, although the volume of beginning and small farmers loans met the target projections for growth, the Association's volume of young farmer loans and the number of young, beginning, and small farmers loans did not meet the target projections for growth. Due to a rapidly increasing interest rate environment, all loan categories struggled for growth. Young, beginning, and small farmers were no exception. The Association continues to actively participate in many outreach activities including youth livestock shows, hay shows, County Extension programs, local Farm Day, 4-H and FFA events, and Chamber activities.