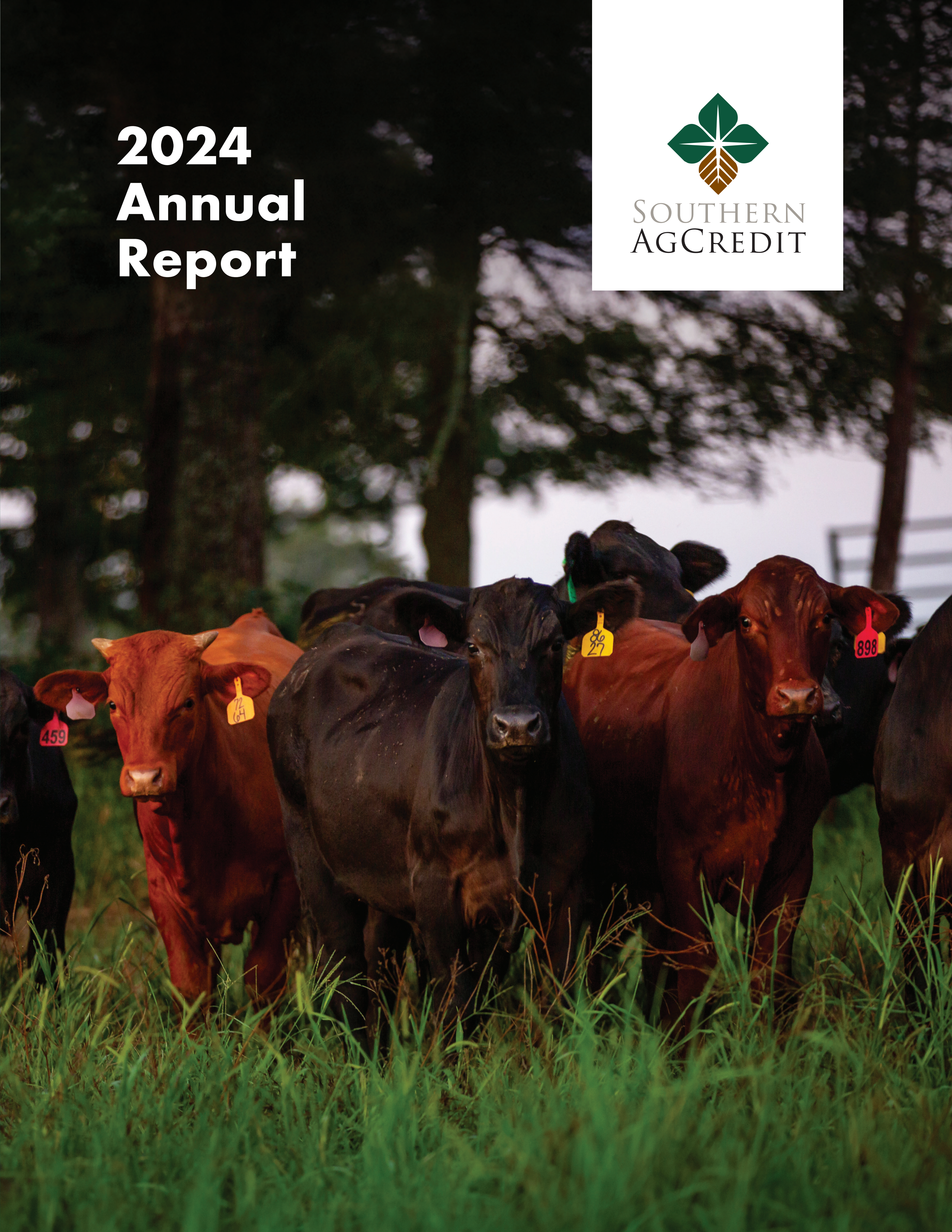
# 2024 Annual Report

Southern AgCredit



# Branch Locations

**RIDGELAND, MISSISSIPPI**
**(CORPORATE HEADQUARTERS)**
306 Commerce Center Drive,
Ridgeland, Mississippi 39157
P: (601) 499-2820 F: (601) 510-9101

**BROOKHAVEN, MISSISSIPPI**
78 Highway 84 East,
Brookhaven, Mississippi 39601
P: (601) 833-1771 F: (601) 833-1774

**GREENVILLE, MISSISSIPPI**
2625 Highway 1 South,
Greenville, Mississippi 38701
P: (662) 335-5253 F: (662) 378-8175

**GREENWOOD, MISSISSIPPI**
2217 Highway 82 West,
Greenwood, Mississippi 38930
P: (662) 455-2545 F: (662) 455-9387

**GULFPORT, MISSISSIPPI**
12196 Highway 49,
Gulfport, Mississippi 39503
P: (228) 832-5582 F: (228) 832-7908

**HATTIESBURG, MISSISSIPPI**
6580 US Highway 98,
Hattiesburg, Mississippi 39402
P: (601) 579-7800 F: (601) 579-7550

**NEWTON, MISSISSIPPI**
197 Northside Drive,
Newton, Mississippi 39345
P: (601) 683-2018 F: (601) 683-7052

**RUSTON, LOUISIANA**
600 North Vienna Street,
Ruston, Louisiana 71270
P: (318) 255-6539 F: (318) 255-6543

**SHREVEPORT, LOUISIANA**
2042 East 70th Street,
Shreveport, Louisiana 71105
P: (318) 797-0140 F: (318) 797-4530

## Opt-In Today!

You can now opt-in to receive stockholder reports and information on customer events through emails and text messages from Southern AgCredit. Scan the QR code to fill out the communication preferences form and e-consent. We're always looking for ways to keep in touch in order to better serve our customer-owners more efficiently.

# A Message From the CEO

## Standing With You For 108 Years

Dear Stockholder:

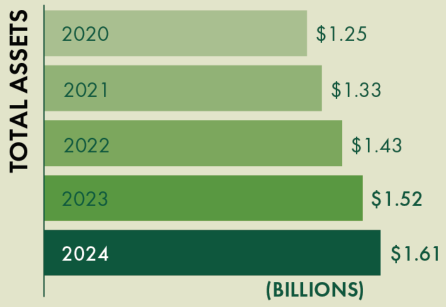
Farming is not for the faint of heart. In the last five years, Mississippi and Louisiana farmers have shouldered a significant rise and fall in commodity prices, fertilizer costs, and energy expenses. The cost of labor and borrowing rates have substantially increased during this period and remain elevated today. Farmland values continue a steady march upward limiting opportunities for farmers to expand operations to gain economies of scale. Current land values are also a considerable hurdle for aspiring young, beginning and small farmers. Even within high production value areas such as beef cattle, stubborn high input and operating costs pressure net farm income for these farmers and ranchers. And, this is just the economics, not to mention the weather events and animal disease that continue to steal the news headlines.

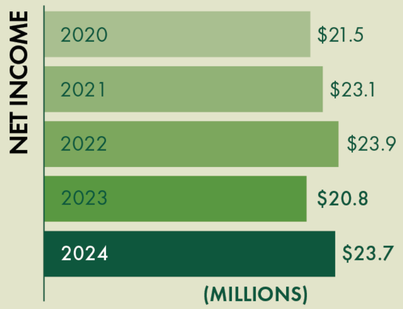
Nonetheless, today's farm production headwinds are nothing new. Farm families and the rural communities that support them have been weathering storms and economic volatility since the first earth was tilled. And yet, every farm family begins the next day working as hard as the last to maintain their way of life while providing food and fiber for a dependent world. Will Rogers said it best, *"The farmer has to be an optimist, or he wouldn't still be a farmer."* Thankfully, our farm country is filled with optimists!

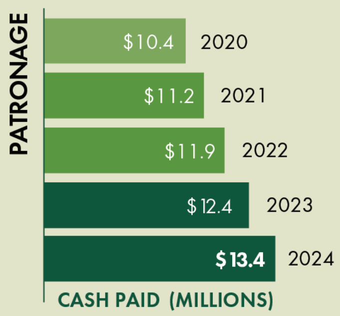
At Southern AgCredit, we understand market volatility, economic uncertainty, and production challenges, as well as the courage and resilience it takes to continue forward. We value our partnership to stand with farmers, their families and their communities no matter the challenges. The last 108 years demonstrate our commitment to this important mission. And we promise to remain steadfast in our commitment to provide reliable and dependable credit and financial services to agriculture and rural communities, today and tomorrow.

Enclosed in this annual report is the financial summary of our mission fulfillment in recent years. However, it does not detail the optimistic efforts of the thousands of farms, families and borrowers, whose dreams we have the pleasure of financing. Our dedicated team of hardworking folks remain confident in the future of Mississippi and Louisiana agriculture, regardless of the challenges ahead. Thank you for trusting us with your business and we look forward to serving our customer-owners for the next 108 years.

### FINANCIAL AND OTHER HIGHLIGHTS



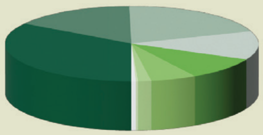




*/s/ Phillip D. Morgan*

**Phillip D. Morgan**
*President*
*Chief Executive Officer*

### COMMODITY CONCENTRATION



- Rural Real Estate Mortgages: **34.2%**
- Livestock & Dairy: **15.6%**
- Timber: **20.0%**
- Rice, Soybeans & Crops: **12.5%**
- Poultry & Eggs: **9.6%**
- Other: **5.9%**
- Cotton: **1.5%**
- Catfish: **0.4%**
- Rural Home: **0.4%**

# Financing the Future of Agriculture

Southern AgCredit believes the future of agriculture depends on supporting those beginning their careers in farming. That's why we are committed to young, beginning, and small (YBS) farmers, providing them with the financial tools, resources, and guidance critical to success. Whether they're buying their first piece of land, expanding their operation, or navigating the challenges of rural business ownership, we're here to help. By investing in the next generation of farmers, Southern AgCredit is ensuring that agriculture and our rural communities continue to thrive for generations to come.

## What Is YBS?

- **YOUNG:** A farmer, rancher, or producer or harvester of aquatic products who is 35 years old or younger as of the date the loan is originally made.
- **BEGINNING:** A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less of farming, ranching, or aquatic experience as of the date the loan is originally made.
- **SMALL:** A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $350,000 in annual gross cash farm income of agricultural or aquatic products.

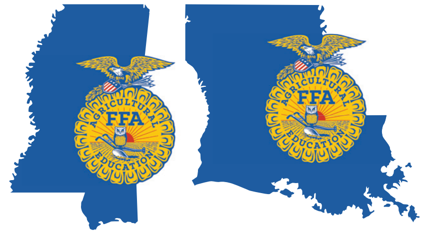
## We support the future of ag by providing reliable, consistent credit and financial services today and tomorrow

### 5 YEAR YOUNG, BEGINNING & SMALL FARMER TRENDS (VOLUME)

| | 2024 | 2023 | 2022 | 2021 | 2020 |
|---|---|---|---|---|---|
| New Loans Closed | $373.2 Million | $335.7 Million | $357.4 Million | $382.52 Million | $420.0 Million |
| New Loans Closed to Young Borrowers | 19.88% | 17.17% | 17.68% | 16.80% | 17.09% |
| New Loans Closed to Beginning Borrowers | 54.24% | 44.51% | 47.04% | 52.63% | 42.50% |
| New Loans Closed to Small Borrowers | 64.32% | 49.90% | 56.28% | 60.31% | 56.94% |

**Our investment in the future of agriculture secures both the industry's growth and the enduring vitality of our rural communities now and in the future.**

Southern AgCredit is proud to sponsor two $2,500 scholarships, awarded to one student in Mississippi Future Farmers of America (FFA) and one student in Louisiana FFA.



Jazabreun Spann from Brandon High School FFA was the 2024 winner of the $2,500 Mississippi FFA Advancing Ag Scholarship. Jazabreun attends Mississippi State University.

**"It was super easy putting FFA on my school schedule because my family grew up around agriculture, from raising animals to growing crops. Being in FFA impacted my life tremendously because it felt like I was at home—like I never left home—while meeting new people and exploring agriculture in a broader aspect."** —Jazabreun Spann

Hunter Shaffer from Homer High FFA was the 2024 winner of the $2,500 Louisiana FFA Advancing Ag Scholarship. Hunter attends Northwestern State University.

Southern AgCredit was awarded the Friend of 4-H Award for its unwavering support shown to 4-H students.

WHITNEY WATTS, SOUTHERN AGCREDIT REPRESENTATIVE, IS PHOTOGRAPHED WITH DR. ANGUS CATCHOT, DIRECTOR, MSU EXTENSION SERVICE.

# Southern AgCredit Scholarship at Mississippi State University

Allison Claire "Allie Claire" Amis is a junior majoring in animal and dairy science with a pre-veterinary concentration from Conehatta, Mississippi. Allie Claire was named the 2024 Southern AgCredit scholarship recipient at Mississippi State University.

ALLIE CLAIRE AMIS WITH THE SOUTHERN AGCREDIT BOARD OF DIRECTORS AND CEO, PHILLIP MORGAN.

# Member-Owner Elected Leadership

The Southern AgCredit Board of Directors proudly recognizes the financial challenges faced by the vast majority of our customers because they are agricultural producers and rural business leaders too. Both our stockholder-elected and board-appointed directors represent a cross-section of our diverse lending territory and bring broad experience in agricultural production, accounting, technology, and more. Together, they set the direction and policy for the cooperative and represent the best interests of our customer-stockholders, to whom they are accountable. For full biographies of each director, see the disclosure information and index section of this report.

## Board of Directors

**Bryan "Scott" Bell**
Chairman
Cattle/Poultry/Row-Crop Farmer
Lena, Mississippi

**Lonnie "Gene" Boykin**
Vice Chairman
Wheat/Soybean/Corn Farmer
Rolling Fork, Mississippi

**Reggie Allen**
Timber and Cattle Farmer
Brookhaven, Mississippi

**Steven "Steve" Dockens, CPA**
Accounting and Consulting
Ocean Springs, Mississippi

**Loyd Dodson**
Cattle Farmer
Houghton, Louisiana

**Charles "Allen" Eubanks**
Vegetable Farmer
Lucedale, Mississippi

## Why They Serve

"Starting out as a young, beginning and small farmer, Southern AgCredit played a pivotal role in helping me accomplish what I have today. Without the financial support and resources Southern AgCredit provided, I wouldn't have been able to grow my business and navigate the challenges through the years. As a director of Southern AgCredit, I have the privilege of contributing to the growth and success of others in similar positions and helping create opportunities that benefit both today's farmers and future generations."

"I take great pride in serving as a director for Southern AgCredit. I recognize that the stockholders of the association placed their trust in me by voting for my position, and I am committed to representing their interests with the utmost integrity, honesty, and the highest standards of professionalism. Whenever I attend meetings or training sessions, I always keep in mind the responsibility I hold and those I represent."

"I am committed to advising and supporting the CEO and senior management team in implementing strong business practices that benefit association stockholders and employees. I will serve as a representative for stockholders, ensuring a strong return in patronage while also advocating for Farm Credit including championing a strong Farm Bill and policies that support American farmers, reinforcing the foundation of agriculture and rural communities."

"What an awesome organization! My work with Southern AgCredit began in 2005, working as a contract internal auditor. I have been so impressed with the leadership and staff that when I was asked a few years ago if I would consider serving on the board as the association's outside financial expert, I readily agreed. I'm honored to contribute my expertise in financial reporting and business advisory services, helping strengthen the board's ability to oversee and guide this outstanding organization."

"I want to serve to support and empower young farmers and ranchers as they embark on their journey in the agriculture industry. I am committed to providing guidance, resources, and advocacy to help them build successful and sustainable operations. Additionally, I strive to keep our team moving forward in a progressive direction, fostering innovation and growth to ensure a strong future for agriculture."

"The role of director is especially meaningful to me because of my deep love for agriculture. I'm committed to ensuring that young and new farmers have access to credit from people who truly understand the unique challenges and rewards of farming. Supporting the next generation of farmers is vital for the future of agriculture, and I'm honored to play a part in making that possible."

**Jonathan Hollingshead**
Cybersecurity and
Information Technology
Flora, Mississippi

"As an outside director, I bring an independent perspective to the table, ensuring that decisions align with the long-term interests of the association and its stockholders. By embracing and leveraging technology, we have the opportunity to drive innovation that enhances financial services, strengthens risk management and cybersecurity and provides even greater support to the farm and rural businesses we serve."

**John "Paul" Johns, Jr.**
Cattle and Poultry Farmer
Jonesboro, Louisiana

"My objective is to support the growth and stability of a well-capitalized association that is widely recognized for its integrity and honesty within our chartered territory. I am dedicated to ensuring the organization remains true to these values while providing shareholders and borrowers with access to fair credit. By doing so, we can effectively support the rural and agricultural lifestyles that are the foundation of our community."

**Larry W. Killebrew**
Cotton/Corn/Soybean/Cattle Farmer
Lexington, Mississippi

"Having served on the Southern AgCredit Board for 15 years, my primary objective has always been to provide our stockholders with affordable financing to purchase homes, farms, and businesses. I am deeply grateful for the confidence you have placed in me to serve in this role."

**Kevin Rhodes**
Cattle and Poultry Farmer
Pelahatchie, Mississippi

"Serving on the board allows me to directly represent the stockholders of Southern AgCredit in its governance. It is a privilege to collaborate with the board and management to develop policies that contribute to the strategic direction for the association as it continues to evolve in agricultural finance and support our rural communities. It is truly an honor and a pleasure to serve as a director representing the rural communities of Mississippi."

# Senior Management Team

**Phillip D. Morgan**
President
Chief Executive Officer

**Ted R. Murkerson**
Executive Vice President
Chief Strategy Officer

**Ken D. Hobart**
Senior Vice President
Chief Collateral Risk Officer

**Brent D. Barry**
Vice President
Chief Credit Officer

**Britny B. Hester, CPA**
Vice President
Chief Financial Officer

**Amanda R. Hudson**
Vice President
Chief Information Officer

**Jeffrey M. Williams**
Vice President
General Counsel

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## REPORT OF MANAGEMENT

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

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

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

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

/s/ Phillip D. Morgan
Phillip D. Morgan
Chief Executive Officer
*March 7, 2025*

/s/ Bryan "Scott" Bell
Bryan "Scott" Bell
Chairman, Board of Directors
*March 7, 2025*

/s/ Britny B. Hester, CPA
Britny B. Hester, CPA
Chief Financial Officer
*March 7, 2025*

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

The association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2024. In making the assessment, management used the framework in Internal Control— Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the association concluded that as of December 31, 2024, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2024. A review of the assessment performed was reported to the association's audit committee.

/s/ Phillip D. Morgan
Phillip D. Morgan
Chief Executive Officer
*March 7, 2025*

/s/ Britny B. Hester, CPA
Britny B. Hester, CPA
Chief Financial Officer
*March 7, 2025*

/s/ Amanda R. Hudson
Amanda R. Hudson
Chief Information Officer
*March 7, 2025*

## REPORT OF AUDIT COMMITTEE

The Audit Committee (Committee) is composed of Steve Dockens, chair, Kevin Rhodes, Jonathan Hollingshead, and Lonnie Gene Boykin, board vice chairman. In 2024, seven Committee meetings were held. The Committee oversees the scope of Southern AgCredit, ACA's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on Southern AgCredit, ACA's website. The Committee approved the appointment of PricewaterhouseCoopers LLP (PwC) for 2024.

Management is responsible for Southern AgCredit, ACA's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements are prepared under the oversight of the Committee. PwC is responsible for performing an independent audit of Southern AgCredit, 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 Southern AgCredit, ACA's audited consolidated financial statements for the year ended December 31, 2024 (audited consolidated financial statements) with management and PwC. The Committee also reviews with PwC the matters required to be discussed by authoritative guidance "The Auditor's Communication with Those Charged with Governance," and both PwC's and Southern AgCredit, ACA's internal auditors directly provide reports on significant matters to the Committee.

The Committee discussed with PwC its independence from Southern AgCredit, ACA. The Committee also reviewed the nonaudit services provided by PwC and concluded that these services were not incompatible with maintaining the independent accountant's independence. The Committee has discussed with management and PwC 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 Southern AgCredit, ACA's Annual Report to Stockholders for the year ended December 31, 2024.

Audit Committee Members

Steve Dockens, Chair
Kevin Rhodes
Jonathan Hollingshead
Reggie Allen

*March 7, 2025*

**SOUTHERN AGCREDIT, ACA**

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

| | 2024 | 2023 | 2022 | 2021 | 2020 |
|---|---|---|---|---|---|
| **Balance Sheet Data** | | | | | |
| Assets | | | | | |
| Cash | **$ 22** | $ 35 | $ 28 | $ 9 | $ 8 |
| Investments | **814** | 913 | 1,224 | 2,508 | 3,533 |
| Loans | **1,571,842** | 1,456,897 | 1,377,304 | 1,289,284 | 1,207,849 |
| Less: allowance for credit losses on loans | **3,391** | 3,287 | 1,637 | 1,643 | 1,487 |
| Net loans | **1,568,451** | 1,453,610 | 1,375,667 | 1,287,641 | 1,206,362 |
| Investment in and receivable from the Farm Credit Bank of Texas | **33,721** | 27,137 | 24,013 | 21,950 | 21,879 |
| Other property owned, net | **193** | - | - | 380 | 216 |
| Other assets | **38,309** | 34,298 | 30,561 | 21,458 | 18,944 |
| Total assets | **$ 1,641,510** | $ 1,515,993 | $ 1,431,493 | $ 1,333,946 | $ 1,250,942 |
| Liabilities | | | | | |
| Obligations with maturities of one year or less | **$ 22,706** | $ 21,201 | $ 20,497 | $ 21,038 | $ 19,622 |
| Obligations with maturities greater than one year | **1,392,342** | 1,278,718 | 1,202,202 | 1,117,148 | 1,047,897 |
| Total liabilities | **1,415,048** | 1,299,919 | 1,222,699 | 1,138,186 | 1,067,519 |
| Members' Equity | | | | | |
| Capital stock and participation certificates | **5,741** | 5,387 | 5,229 | 5,030 | 4,811 |
| Additional paid-in capital | **10,239** | 10,239 | 10,239 | 10,239 | 10,239 |
| Unallocated retained earnings | **210,223** | 199,944 | 192,738 | 180,693 | 168,802 |
| Accumulated other comprehensive income (loss) | **259** | 504 | 588 | (202) | (429) |
| Total members' equity | **226,462** | 216,074 | 208,794 | 195,760 | 183,423 |
| Total liabilities and members' equity | **$ 1,641,510** | $ 1,515,993 | $ 1,431,493 | $ 1,333,946 | $ 1,250,942 |
| **Statement of Income Data** | | | | | |
| Net interest income | **$ 37,888** | $ 35,699 | $ 32,585 | $ 30,776 | $ 28,254 |
| (Provision for credit losses) | **(270)** | (785) | (105) | (184) | (273) |
| Income from the Farm Credit Bank of Texas | **4,822** | 4,417 | 8,325 | 7,682 | 6,414 |
| Other noninterest income | **886** | 435 | 493 | 510 | 837 |
| Noninterest expense | **(19,623)** | (19,009) | (17,370) | (15,661) | (13,729) |
| Net income (loss) | **$ 23,703** | $ 20,757 | $ 23,928 | $ 23,123 | $ 21,503 |
| **Key Financial Ratios for the Year** | | | | | |
| Return on average assets | **1.5%** | 1.4% | 1.7% | 1.8% | 1.8% |
| Return on average members' equity | **10.3%** | 9.4% | 11.4% | 11.8% | 11.7% |
| Net interest income as a percentage of average earning assets | **2.5%** | 2.5% | 2.5% | 2.5% | 2.4% |
| Net charge-offs (recoveries) as a percentage of average loans | **0.0%** | 0.0% | 0.0% | 0.0% | 0.0% |

**SOUTHERN AGCREDIT, ACA**

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

| | 2024 | 2023 | 2022 | 2021 | 2020 |
|---|---|---|---|---|---|
| **Key Financial Ratios at Year End** | | | | | |
| Members' equity as a percentage of total assets | **13.8%** | 14.3% | 14.6% | 14.8% | 14.7% |
| Debt as a percentage of members' equity | **624.9%** | 601.6% | 585.6% | 581.4% | 582.0% |
| Allowance for credit losses on loans as a percentage of loans | **0.2%** | 0.2% | 0.1% | 0.1% | 0.1% |
| Common equity tier 1 ratio | **13.6%** | 13.9% | 14.0% | 14.0% | 14.5% |
| Tier 1 capital ratio | **13.6%** | 13.9% | 14.0% | 14.0% | 14.5% |
| Total capital ratio | **13.8%** | 14.1% | 14.1% | 14.1% | 14.6% |
| Permanent capital ratio | **13.6%** | 13.9% | 14.0% | 13.9% | 14.5% |
| Tier 1 leverage ratio | **13.2%** | 13.6% | 13.6% | 13.7% | 14.0% |
| UREE leverage ratio | **8.9%** | 9.0% | 8.8% | 10.3% | 10.6% |
| **Net Income Distribution** | | | | | |
| Cash dividends | **$ 12,424** | $ 11,883 | $ 11,233 | $ 10,427 | $ 10,091 |
| Patronage dividends declared | **13,425** | 12,424 | 11,883 | 11,233 | 10,427 |

The association's ratios remained well above the regulatory minimums, including the conservation and leverage buffers, at December 31, 2024. 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 Southern AgCredit, ACA, including its wholly owned subsidiaries Southern AgCredit, PCA and Southern AgCredit, FLCA (association) for the years ended December 31, 2024, 2023 and 2022, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying financial statements were prepared under the oversight of the association's audit committee.

**Forward-Looking Information:**

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

- political, legal, regulatory, financial markets 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 and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income of borrowers;
- 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, government and fiscal policy; and
- credit, interest rate, prepayment and liquidity risk inherent in lending activities.

**Commodity Review and Outlook:**

The economy within the association's lending territory remains stable. Economic conditions for all commodities, including cattle, poultry and row crops, are cyclical in nature and affected by external factors such as weather, input costs, demand, international trade and government intervention among many others. The general economic conditions both nationally and locally remain important to the association due to the primary repayment for much of the association's loan volume being tied to off-farm sources. Although the interest rate environment remains elevated, this has not resulted in a discernable impact on the local economy or market conditions. Locally, our branch teams continue to grow their respective loan portfolios by seeking out quality credits and ensuring that the association has an opportunity to reach as many qualifying credit deals as possible. As such, the association's lending territory and borrowers have little fluctuation in their repayment capacity based on national, state and local economic conditions or the current elevated interest rate environment at this time. As of December 31, 2024, there were no heightened or unusual concerns regarding financed commodities, economic conditions or rising interest rates.

**Significant Events:**

In December 2024, the association's board of directors declared a record patronage in the amount of $23,189,165 to stockholders, including $13,424,797 to be paid in cash, and $9,764,368 in the form of non-qualified allocated equities on behalf of the individual stockholders and retained indefinitely by the association. Non-qualified allocated equities are not taxable to the stockholder. The cash patronage was disbursed to the association stockholders in February 2025. The 2024 cash patronage is a record return of earnings to the stockholders of the association and represents on average a 1 percent reduction in borrowers' loan interest rate. Patronage declarations from 2020-2023 also included cash disbursements and allocated equities retained by the association. Borrowers received total cash returns in the amounts of $12,424,484, $11,883,219, $11,232,746 and $10,426,868 in 2023, 2022, 2021 and 2020, respectively.

In an effort to improve the association's operating efficiency and customer service capacity, construction of a new office building in Brookhaven, Mississippi, was completed in October 2024. The board and management of the association believe the new office building will provide for continued asset growth and expanding operational needs of the association in the near future, while also improving upon the association's continuing commitment to provide its borrowers with the highest quality of customer service.

Throughout the year, 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.

**Patronage Received From Farm Credit Bank of Texas:**

In December 2024, the association received notification the direct loan patronage of $4,522,427 from the Farm Credit Bank of Texas (bank), representing 34 basis points on the average daily balance of the association's direct loan with the bank would be paid in January 2025. During 2023, the bank unexpectedly communicated a change in their business model going forward with a new sustainable capital growth charge of 25 basis points, significantly reducing the association's direct note patronage received in the current year and beyond. The effect of the reduction of direct note patronage from the bank is evident in the association's financial performance, equity and capital ratios. During 2023, the association received $776,013 in patronage payments from the bank, based on the association's stock investment in the bank. The bank has communicated these stock investment patronage payments will no longer be provided going forward. Also, the association received a capital markets patronage of $299,596 from the bank, representing 75 basis points on the association's average balance of participations in the bank's patronage pool program. Total patronage received in 2023, 2022, 2021 and 2020 was $4,417,419, $8,324,710, $7,682,363 and $6,413,878, respectively.

The association's board and management have planned for the effects of the increase in stock investment, loss in direct note patronage, decline in capital markets patronage and elimination in patronage on investment stock from the bank going forward in our five-year business plan. Association internal operational adjustments, swift improvements in cost efficiency along with continued asset growth are expected to address and alleviate the change in patronage income from the bank over the five-year time horizon. Despite the change in the patronage income from the bank, the association's board remained committed to the success of our borrowers and returned another record cash patronage to our stockholders.

**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 long-term 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 association remains the premier lender of choice for agriculture commodities produced in Mississippi and Louisiana. In addition to production loans, the association's portfolio is considerably strengthened by long-term loans for agriculture and recreational real estate throughout our territory. The association's largest commodities financed continue to be related to timber, livestock, row crops and poultry. The timber portfolio includes loans primarily for recreational purposes. The timber industry continues to remain stable throughout the association territory, even as elevated interest rates have decreased demand for housing locally and nationally. The primary repayment sources for timber and recreational purposes continues to be off-farm income. Despite the presence of continued supply chain issues, a tight labor force, transportation disruptions, high feed and energy costs, poultry demand and output remained stable throughout 2024. The outlook for 2025 indicates poultry production will continue to remain stable. The association expects to see minimal growth in this area in 2025 given current market conditions, but we will remain competitive on opportunities for farm purchases throughout the territory, given our presence in the market. In 2024 corn and soybean prices provided good marketing opportunities through planting season and late spring, but gradually declined throughout the remainder of the year. As a result, producer margins tightened as production costs were already incurred from earlier in the year. The 2025 outlook for row crops points toward a slow decline in input expenses coupled with already slightly improved commodity prices than we saw at the end of 2024. Livestock production and demand within the association's territory increased through the end of 2024 despite continued high input costs, and lingering effects of inflation. The 2025 outlook for livestock indicates domestic demand is expected to continue to grow slightly, with expected input costs to remain elevated but stable, thus constricting overall profitability.

The composition of the association's loan portfolio, including principal less funds held of $1,571,842,171, $1,456,897,097 and $1,377,303,644 as of December 31, 2024, 2023 and 2022, respectively, is described more fully in detailed tables in Note 4, "Loans and Allowance for Credit Losses on Loans," in the accompanying consolidated financial statements.

## Purchase and Sales of Loans:

During 2024, 2023 and 2022, the association was participating in loans with other lenders. As of December 31, 2024, 2023 and 2022, these participations totaled $172,893,807, $174,739,808 and $142,267,375, or 11.0 percent, 12.0 percent and 10.3 percent of loans, respectively. Included in these amounts are participations purchased from entities outside the district of $35,490, $4,516,767 and $67,063, respectively. The association has also sold participations of $41,807,325, $40,604,075 and $36,276,767 as of December 31, 2024, 2023 and 2022, respectively.

The association also utilizes the Mississippi Development Authority's Agribusiness Enterprise Loan Program (ABE), which is designed to provide a percentage of low-cost state financing combined with private financial lending institutions' loan proceeds to encourage loans to the agribusiness industry in the state. ABE loans totaled $13,673,714 $12,090,628 and $12,531,490 as of December 31, 2024, 2023 and 2022, respectively.

During 2010, the association exchanged loans totaling $35,192,440 for Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed mortgage-backed securities (AMBS). The loans were previously covered under the Long-Term Standby Commitment to Purchase Agreements with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions. These AMBS are included in the association's consolidated balance sheet as held-to-maturity investments at an amortized cost balance of $813,931 at December 31, 2024. The association continues to service the loans included in those transactions.

### 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:

| | **2024** | | 2023 | | 2022 | |
|---|---|---|---|---|---|---|
| | **Amount** | **%** | Amount | % | Amount | % |
| Nonaccrual loans | **$ 281,792** | **59.3%** | $ 1,193,076 | 100.0% | $ 666,741 | 51.3% |
| Formally restructured* | **-** | **0.0%** | - | 0.0% | 633,161 | 48.7% |
| Other property owned, net | **193,021** | **40.7%** | - | 0.0% | - | 0.0% |
| Total | **$ 474,813** | **100.0%** | $ 1,193,076 | 100.0% | $ 1,299,902 | 100.0% |

* January 1, 2023, the association adopted the Financial Accounting Standards Board (FASB) guidance entitled "Measurement of Credit Losses on Financial Instruments" and "Financial Instruments – Credit Losses: Troubled Debt Restructurings and Vintage Disclosure." The adoption eliminated the accounting guidance for troubled debt restructurings by creditors and required all financial assets to be measured at amortized cost as described in Note 2, "Summary of Significant Accounting Policies."

At December 31, 2024, 2023 and 2022, nonperforming loans were $281,792, $1,193,076 and $1,299,902, representing 0 percent, .1 percent and .1 percent of loan volume, respectively.

The decrease in nonaccrual loan volume for the 12 months ended December 31, 2024, is primarily due to partial payoff of capital market participation loans with the remainder being transferred to acquired property.

The increase in nonaccrual loan volume for the 12 months ended December 31, 2023, is primarily due to the transfer of two capital market participation loans to one borrower in the amount of $828,369.

The decrease in nonaccrual loan volume for the 12 months ended December 31, 2022, is primarily due to the payoff of two loans and a foreclosure on one loan for a combined total of $791,371, and one nonaccrual loan that was reinstated to accrual. The slight decrease in formally restructured loans was due to scheduled principal payments.

Acquired property as of December 31, 2024, consists of the association's pro rata share of collateral acquired through the bankruptcy proceedings of a capital markets participation loan.

Except for the relationship between installment due date and seasonal cash-flow capabilities of the borrower, the association is not affected by any seasonal characteristics. The factors affecting the operations of the association are the same factors that would affect any agricultural real estate lender. To help mitigate and diversify credit risk, the association has employed practices including securitization of loans, obtaining credit guarantees and engaging in loan participations. Although management and the board develop underwriting standards that limit the risk of loss exposure to the association, management and the board understand that loan defaults and resulting losses are inherent to the lending industry.

**Allowance for Credit Losses on Loans:**

Effective January 1, 2023, the association employs a disciplined process and methodology to establish its allowance for credit losses on loans that 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 collateral-dependent loans (including those loans for which foreclosure is probable) and nonaccrual loans. For an asset-specific loan, expected credit losses are measured as the difference between the amortized cost basis in the loan and the present value of expected future cash flows discounted at the loan's effective interest rate except that, for collateral-dependent loans, credit loss is measured as the difference between the amortized cost basis in the loan and the fair value of the underlying collateral. The fair value of the collateral is adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral. In accordance with the association's appraisal policy, the fair value of collateral-dependent loans is based upon independent third-party appraisals or on collateral valuations prepared by in-house appraisers. When an updated appraisal or collateral valuation is received, management reassesses the need for adjustments to the loan's expected credit loss measurements and, where appropriate, records an adjustment. If the calculated expected credit loss is determined to be permanent, fixed or non-recoverable, the credit loss portion of the loan will be charged off against the allowance for credit losses.

In estimating the component of the 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, commodity, credit quality rating, delinquency category or business segment or a combination of these classes. The allowance is determined based on a quantitative calculation of the expected life-of-loan loss percentage for each loan category by considering the probability of default, based on the migration of loans from performing to loss by credit quality rating or delinquency buckets using historical life-of-loan analysis periods for loan types, and the severity of loss, based on the aggregate net lifetime losses incurred per loan pool.

Prior to January 1, 2023, the allowance for loan losses was maintained at a level considered adequate to provide for probable losses existing in and inherent in the loan portfolio. The allowance was based on a periodic evaluation of the loan portfolio in which numerous factors were considered, including economic conditions, collateral values, borrowers' financial conditions, loan portfolio composition and prior loan loss experience. The allowance for loan losses encompassed various judgments, evaluations and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity would cause these various judgments, evaluations and appraisals to change over time. Management considered a number of factors in determining and supporting the levels of the allowances for loan losses, which 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 $3,391,020, $3,287,288 and $1,636,968 at December 31, 2024, 2023 and 2022, respectively, is considered adequate by management to compensate for losses in the loan portfolio at such dates. Management considers the year-end amounts adequate based on their assessment of the evaluation criteria referenced above as of year-end.

**Results of Operations:**

The association's net income for the year ended December 31, 2024, was $23,703,347 as compared to $20,757,639 for the year ended December 31, 2023, reflecting an increase of $2,945,708, or 14.2 percent. The association's net income for the year ended December 31, 2022, was $23,928,367. Net income decreased $3,170,728, or 13.3 percent, in 2023 versus 2022. The decrease in the net income for 2023 is specifically related to the decline in direct note patronage and participation patronage historically provided by the bank. There were no concerns otherwise operationally resulting in the decline.

Net interest income for 2024, 2023 and 2022 was $37,887,693, $35,699,245 and $32,585,316, respectively, reflecting increases of $2,188,448 or 6.1 percent, for 2024 versus 2023 and $3,113,929, or 9.6 percent, for 2023 versus 2022. 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:

| | **2024** | | **2023** | | **2022** | |
|---|---|---|---|---|---|---|
| | **Average Balance** | **Interest** | Average Balance | Interest | Average Balance | Interest |
| Loans | **$ 1,509,485,642** | **$ 89,665,070** | $ 1,411,649,109 | $ 76,898,542 | $ 1,325,071,710 | $ 58,775,124 |
| Investments | **856,539** | **54,368** | 1,079,493 | 64,443 | 1,567,559 | 73,237 |
| Total interest-earning assets | **1,510,342,181** | **89,719,438** | 1,412,728,602 | 76,962,985 | 1,326,639,269 | 58,848,361 |
| Interest-bearing liabilities | **1,319,159,792** | **51,831,745** | 1,225,739,823 | 41,263,740 | 1,145,076,795 | 26,263,045 |
| Impact of capital | **$ 191,182,389** | | $ 186,988,779 | | $ 181,562,474 | |
| Net interest income | | **$ 37,887,693** | | $ 35,699,245 | | $ 32,585,316 |

| | **2024 Average Yield** | **2023 Average Yield** | **2022 Average Yield** |
|---|---|---|---|
| Yield on loans | **5.94%** | 5.45% | 4.44% |
| Yield on investments | **6.35%** | 5.97% | 4.67% |
| Total yield on interest-earning assets | **5.94%** | 5.45% | 4.44% |
| Cost of interest-bearing liabilities | **3.93%** | 3.37% | 2.29% |
| Interest rate spread | **2.01%** | 2.08% | 2.15% |
| Net interest income as a percentage of average earning assets | **2.51%** | 2.53% | 2.46% |

| | **2024 vs. 2023** | | | **2023 vs. 2022** | | |
|---|---|---|---|---|---|---|
| | **Increase (decrease) due to** | | | **Increase (decrease) due to** | | |
| | **Volume** | **Rate** | **Total** | Volume | Rate | Total |
| Interest income - loans | **$ 5,329,547** | **$ 7,436,981** | **$ 12,766,528** | $ 3,840,227 | $ 14,283,191 | $ 18,123,418 |
| Interest income - investments | **(13,310)** | **3,235** | **(10,075)** | (22,802) | 14,008 | (8,794) |
| Total interest income | **5,316,237** | **7,440,216** | **12,756,453** | 3,817,425 | 14,297,199 | 18,114,624 |
| Interest expense | **3,144,890** | **7,423,115** | **10,568,005** | 1,850,087 | 13,150,608 | 15,000,695 |
| Net interest income | **$ 2,171,347** | **$ 17,101** | **$ 2,188,448** | $ 1,967,338 | $ 1,146,591 | $ 3,113,929 |

Interest income for 2024 increased by $12,756,453, or 16.6 percent, compared to 2023, primarily due to increases in yields on earning assets and an increase in average loan volume. Interest expense for 2024 increased by $10,568,005, or 25.6 percent, compared to 2023 due to an increase in average debt volume and an increase in average portfolio interest rate. The interest rate spread decreased by 7 basis points to 2.01 percent in 2024 from 2.08 percent in 2023, primarily due to continued upward pressure in cost of lendable funds and market competition in pricing. The interest rate spread decreased by 7 basis points to 2.08 percent in 2023 from 2.15 percent in 2022, primarily due to the continued increase in cost of funds and an inability for this increase to be absorbed within the market.

Noninterest income for 2024 increased by $856,244, or 17.7 percent, compared to 2023, due primarily to the refund from the Farm Credit System Insurance Corporation. Noninterest income for 2023 decreased by $3,966,548, or 45.0 percent, compared to 2022, due primarily to the reduction in the direct note patronage received by the bank.

Provisions for loan losses decreased by $514,671, or 65.6 percent, compared to 2023, due primarily to the association recording a specific reserve and a charge-off on several capital market participation loans in 2023.

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. Operating expenses increased by 613,655, or 3.2 percent for 2024 compared to 2023 due primarily to increased expenses related to salaries and benefits, occupancy and equipment, and other noninterest expense offset by the decrease in the premiums from the Insurance Fund. The decrease in premiums of $731,191 to the Insurance Fund was the result of a change in the assessment rate on adjusted insured debt from 20 basis points at the end of 2022, to 10 basis points for the entirety of 2023 and 2024. Other noninterest expense increased as compared to 2023 primarily due to travel, training, advertising, and other miscellaneous expenses, such as Farmer Mac fees, etc. Operating expenses increased by $1,638,463, or 9.4 percent from 2023 as compared to 2022 due primarily to increased expenses related to salaries and benefits, occupancy and equipment, and other noninterest expense. In accordance with authoritative accounting guidance, loan origination fees and related loan origination costs (salaries and employee benefits) are netted and capitalized in the year occurring, and the net fee or cost is amortized over the life of the originated loans as an adjustment to loan yield.

For the year ended December 31, 2024, the association's return on average assets was 1.5 percent, as compared to 1.4 percent and 1.7 percent for the years ended December 31, 2023 and 2022, respectively. For the year ended December 31, 2024, the association's return on average members' equity was 10.3 percent, as compared to 9.4 percent and 11.4 percent for the years ended December 31, 2023 and 2022, respectively.

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

**Liquidity and Funding Sources:**

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

The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of $1,373,990,419, $1,262,595,133 and $1,186,601,640 as of December 31, 2024, 2023 and 2022, respectively, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 3.96 percent, 3.65 percent and 2.91 percent at December 31, 2024, 2023 and 2022, respectively. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by a general financing agreement. The increase in note payable to the bank and related accrued interest payable since December 31, 2023, is primarily due to loan growth and an increase in the cost of funds. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were $179,425,301, $177,861,518 and $174,229,139 at December 31, 2024, 2023 and 2022, respectively. The maximum amount the association may borrow from the bank as of December 31, 2024, was $1,572,010,098 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2025, unless sooner terminated by the bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the bank 120 days' prior written notice.

The liquidity policy of the association is to manage cash balances, to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued during 2025. 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 $226,461,309, $216,074,468 and $208,793,968 at December 31, 2024, 2023 and 2022, respectively. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-weighted assets as defined by the FCA. The permanent capital ratio measures available at-risk capital relative to risk-weighted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The association's permanent capital ratio at December 31, 2024, 2023 and 2022 was 13.6 percent, 13.9 percent and 14.0 percent, respectively. The core surplus ratio measures available core surplus capital relative to risk-weighted assets and off-balance-sheet contingencies. The ratio is an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The association's core surplus ratio at December 31, 2024, 2023 and 2022 was 13.6 percent, 13.9 percent and 14.0 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 4.5 percent. The total surplus ratio measures available surplus capital relative to risk-weighted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect borrowers' investments in the association. The association's total surplus ratio at December 31, 2024, 2023 and 2022 was 13.8 percent, 14.1 percent and 14.1 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

The Farm Credit Administration (FCA) sets minimum regulatory capital requirements, including capital conservation buffers, for banks and associations. These requirements are split into minimum requirements for risk-adjusted ratios and non-risk adjusted ratios. The risk adjusted ratios include common equity tier 1, tier 1 capital, total capital and permanent capital risk-based ratios. The non-risk adjusted ratios include a tier 1 leverage ratio and unallocated retained earnings (URE) and URE equivalent (UREE) leverage ratio. The Farm Credit Act has defined permanent capital to include all capital except stock and other equities that may be retired upon the repayment of the holder's loan or otherwise at the option of the holder or is otherwise not at risk. Risk-adjusted assets have been defined by regulations as the balance sheet assets and off-balance-sheet commitments adjusted by various percentages ranging from 0 to 1,250 percent, depending on the level of risk inherent in the diverse types of assets.

**Regulatory Matters:**

At December 31, 2024, the association was not under written agreements with the Farm Credit Administration.

On February 8, 2024, the FCA approved a final rule to amend its regulatory capital requirements to define and establish risk-weightings for High Volatility Commercial Real Estate (HVCRE) exposures by assigning a 150 percent risk-weighting to such exposures, instead of the current 100 percent to reflect their increased risk characteristics. The rule further ensures comparability between the FCA's risk-weighting and the federal banking regulators. The final rule excludes certain acquisition, development and construction loans that do not present as much risk and, therefore, do not warrant the risk weight for HVCRE. In addition, the final rule adds an exclusion for loans originated for less than $500 thousand. The effective date of the final rule has been extended to January 1, 2026, from the original effective date of January 1, 2025.

On July 9, 2024, the FCA issued a revised bookletter to provide instruction to System institutions regarding the capital treatment of certain rural water and wastewater (RWW) facility exposures. The revised bookletter, which supersedes the original version published on November 8, 2018, continues to assign a 50 percent or 75 percent risk weight to certain RWW exposures that meet specified criteria.

On July 11, 2024, the FCA issued a revised bookletter to provide guidance to System institutions on implementing effective processes for managing investments and related risks.

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 necessary 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 became effective on January 1, 2025.

On October 10, 2024, the FCA approved a proposed rule that would require System associations that meet certain asset thresholds/conditions as well as all System banks to obtain an annual audit of their internal controls over financial reporting (ICFR), in conjunction with their financial statements, known as an integrated audit. All System banks currently obtain an integrated audit, so this rule would merely formalize that requirement. System associations that fall within the requirements will generally have three fiscal years to obtain an audit. The proposed rule was published in the Federal Register on November 29, 2024. The rule is subject to a 60-day public comment period ending after March 31, 2025.

**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 Bank."

The bank's role in mitigating the association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis and in Note 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 utilizes, such as administrative, marketing, information systems and accounting services. Additionally, the bank bills district expenses to the district associations, such as the Farm Credit System Insurance Corporation insurance premiums.

**Summary:**

Over the past 108 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 with competitive terms. Your continued support will be critical to the success of this association.

## Report of Independent Auditors

To the Board of Directors of Southern AgCredit, ACA

### *Opinion*

We have audited the accompanying consolidated financial statements of Southern AgCredit, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2024, 2023 and 2022, and the related consolidated statements of comprehensive income, of changes in members' equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2024, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

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

### *Emphasis of Matter*

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

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

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

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

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

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

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

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

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

***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the information included in the 2024 Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

PricewaterhouseCoopers LLP

Austin, Texas
March 7, 2025

## SOUTHERN AGCREDIT, ACA

## CONSOLIDATED BALANCE SHEETS

| | December 31, 2024 | 2023 | 2022 |
|---|---|---|---|
| **Assets** | | | |
| Cash | **$ 22,321** | $ 34,525 | $ 28,460 |
| Investments | **813,931** | 912,946 | 1,224,024 |
| Loans | **1,571,842,171** | 1,456,897,097 | 1,377,303,644 |
| Less: allowance for credit losses on loans | **3,391,020** | 3,287,288 | 1,636,968 |
| Net loans | **1,568,451,151** | 1,453,609,809 | 1,375,666,676 |
| Accrued interest receivable | **16,407,650** | 14,531,737 | 11,811,139 |
| Investment in and receivable from the Farm Credit Bank of Texas: | | | |
| Capital stock | **27,228,813** | 25,395,763 | 22,754,470 |
| Other | **6,492,115** | 1,741,544 | 1,258,818 |
| Other property owned, net | **193,021** | - | - |
| Premises and equipment | **20,981,419** | 18,938,820 | 17,842,783 |
| Other assets | **920,051** | 827,773 | 906,560 |
| Total assets | **$ 1,641,510,472** | $ 1,515,992,917 | $ 1,431,492,930 |
| **Liabilities** | | | |
| Note payable to the Farm Credit Bank of Texas | **$ 1,373,990,419** | $ 1,262,595,133 | $ 1,186,601,640 |
| Guaranteed obligations to government entities | **13,673,714** | 12,090,628 | 12,531,490 |
| Advance conditional payments | **100,480** | 73,839 | 99,292 |
| Accrued interest payable | **4,639,693** | 3,947,505 | 2,949,902 |
| Drafts outstanding | **520,326** | 238,933 | 71,896 |
| Dividends payable | **13,424,798** | 12,424,484 | 11,883,219 |
| Other liabilities | **8,699,733** | 8,547,927 | 8,561,523 |
| Total liabilities | **1,415,049,163** | 1,299,918,449 | 1,222,698,962 |
| **Members' Equity** | | | |
| Capital stock and participation certificates | **5,740,520** | 5,387,155 | 5,228,975 |
| Additional paid-in capital | **10,238,891** | 10,238,891 | 10,238,891 |
| Allocated retained earnings | **62,452,680** | 62,452,680 | 62,452,680 |
| Unallocated retained earnings | **147,769,903** | 137,491,354 | 130,285,063 |
| Accumulated other comprehensive income | **259,315** | 504,388 | 588,359 |
| Total members' equity | **226,461,309** | 216,074,468 | 208,793,968 |
| Total liabilities and members' equity | **$ 1,641,510,472** | $ 1,515,992,917 | $ 1,431,492,930 |

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

**SOUTHERN AGCREDIT, ACA**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2024** | **2023** | **2022** |
| **Interest Income** | | | |
| Loans | **$ 89,665,070** | $ 76,898,542 | $ 58,775,124 |
| Investments | **54,368** | 64,443 | 73,237 |
| Total interest income | **89,719,438** | 76,962,985 | 58,848,361 |
| **Interest Expense** | | | |
| Note payable to the Farm Credit Bank of Texas | **51,831,745** | 41,263,667 | 26,262,946 |
| Advance conditional payments | **-** | 73 | 99 |
| Total interest expense | **51,831,745** | 41,263,740 | 26,263,045 |
| Net interest income | **37,887,693** | 35,699,245 | 32,585,316 |
| Provision for credit losses (credit loss reversal) | **270,161** | 784,832 | 105,186 |
| Net interest income after provision for credit losses (credit loss reversal) | **37,617,532** | 34,914,413 | 32,480,130 |
| **Noninterest Income** | | | |
| Income from the Farm Credit Bank of Texas: | | | |
| Patronage income | **4,822,023** | 4,417,418 | 8,324,710 |
| Loan fees | **449,576** | 413,710 | 421,515 |
| Financially related services income | **12,133** | 9,631 | 873 |
| Other noninterest income | **424,495** | 11,224 | 71,433 |
| Total noninterest income | **5,708,227** | 4,851,983 | 8,818,531 |
| **Noninterest Expenses** | | | |
| Salaries and employee benefits | **10,983,099** | 9,883,539 | 9,511,310 |
| Occupancy and equipment | **1,888,897** | 1,790,218 | 1,431,546 |
| Insurance Fund premiums | **1,182,997** | 1,976,188 | 2,028,958 |
| Other components of net periodic postretirement benefit cost | **142,220** | 124,776 | 136,596 |
| Other noninterest expense | **5,425,199** | 5,234,036 | 4,261,884 |
| Total noninterest expenses | **19,622,412** | 19,008,757 | 17,370,294 |
| Income before income taxes | **23,703,347** | 20,757,639 | 23,928,367 |
| **NET INCOME** | **23,703,347** | 20,757,639 | 23,928,367 |
| Other comprehensive income: | | | |
| Change in postretirement benefit plans | **(245,073)** | (83,971) | 790,462 |
| Other comprehensive income, net of tax | **(245,073)** | (83,971) | 790,462 |
| **COMPREHENSIVE INCOME** | **$ 23,458,274** | $ 20,673,668 | $ 24,718,829 |

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

**SOUTHERN AGCREDIT, ACA**

**CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY**

| | Capital Stock/ Participation Certificates | Additional Paid-in-Capital | Retained Earnings Unallocated | Accumulated Other Comprehensive Income (Loss) | Total Members' Equity |
|---|---|---|---|---|---|
| Balance at December 31, 2021 | $ 5,030,515 | $ 10,238,891 | $ 180,692,595 | $ (202,103) | $ 195,759,898 |
| Comprehensive income | - | - | 23,928,367 | 790,462 | 24,718,829 |
| Capital stock/participation certificates and allocated retained earnings issued | 871,170 | - | - | - | 871,170 |
| Capital stock/participation certificates and allocated retained earnings retired | (672,710) | - | - | - | (672,710) |
| Patronage dividends: | | | | | |
| Cash | - | - | (11,883,219) | - | (11,883,219) |
| Balance at December 31, 2022 | 5,228,975 | 10,238,891 | 192,737,743 | 588,359 | 208,793,968 |
| Cumulative effect of a change in accounting principle | - | - | (1,126,864) | - | (1,126,864) |
| Comprehensive income | - | - | 20,757,639 | (83,971) | 20,673,668 |
| Capital stock/participation certificates issued | 754,230 | - | - | - | 754,230 |
| Capital stock/participation certificates and allocated retained earnings retired | (596,050) | - | - | - | (596,050) |
| Patronage dividends: | | | | | |
| Cash | - | - | (12,424,484) | - | (12,424,484) |
| Balance at December 31, 2023 | 5,387,155 | 10,238,891 | 199,944,034 | 504,388 | 216,074,468 |
| Comprehensive income | - | - | 23,703,347 | (245,073) | 23,458,274 |
| Capital stock/participation certificates issued | 929,710 | - | - | - | 929,710 |
| Capital stock/participation certificates and allocated retained earnings retired | (576,345) | - | - | | (576,345) |
| Patronage dividends: | | | | | |
| Cash | - | - | (13,424,798) | - | (13,424,798) |
| **Balance at December 31, 2024** | **$ 5,740,520** | **$ 10,238,891** | **$ 210,222,583** | **$ 259,315** | **$ 226,461,309** |

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

## SOUTHERN AGCREDIT, ACA

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2024** | **2023** | **2022** |
| **Cash flows from operating activities:** | | | |
| Net income | **$ 23,703,347** | $ 20,757,639 | $ 23,928,367 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for loan losses | **270,161** | 784,832 | 105,186 |
| Provision for other property owned | **-** | - | 4,220 |
| Gain on sale of other property owned, net | **-** | - | (2,322) |
| Depreciation and amortization | **2,258,985** | 2,178,260 | 1,731,462 |
| Gain on sale of premises and equipment, net | **(870)** | (69,116) | (160,354) |
| Increase in accrued interest receivable | **(1,875,913)** | (2,720,598) | (2,699,135) |
| Increase in other receivables from the Farm Credit Bank of Texas | **(4,750,571)** | (482,726) | (445,965) |
| (Increase) decrease in other assets | **(92,277)** | 78,786 | 151,548 |
| Increase in accrued interest payable | **692,188** | 997,603 | 1,167,733 |
| Decrease in other liabilities | **(92,183)** | (77,649) | (240,512) |
| Net cash provided by operating activities | **20,112,867** | 21,447,031 | 23,540,228 |
| **Cash flows from investing activities:** | | | |
| Increase in loans, net | **(117,117,953)** | (81,074,323) | (89,300,210) |
| Purchase of the investment in the Farm Credit Bank of Texas | **(1,833,050)** | (2,641,293) | (1,617,790) |
| Investment securities held-to-maturity proceeds from maturities, calls and prepayments | **99,015** | 311,078 | 1,284,330 |
| Purchases of premises and equipment | **(3,030,156)** | (2,757,549) | (8,967,058) |
| Proceeds from sales of premises and equipment | **989** | 751,946 | 2,026,827 |
| Proceeds from sales of other property owned | **540,797** | - | 377,834 |
| Net cash used in investing activities | **(121,340,358)** | (85,410,141) | (96,196,067) |

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

**SOUTHERN AGCREDIT, ACA**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2024** | **2023** | **2022** |
| **Cash flows from financing activities:** | | | |
| Net draws on note payable to the Farm Credit Bank of Texas | **111,395,286** | 75,993,493 | 85,087,802 |
| Increase (decrease) in guaranteed obligations to government entities | **1,583,086** | (440,862) | (1,294,794) |
| Increase (decrease) in drafts outstanding | **281,393** | 167,036 | (62,955) |
| Increase (decrease) in advance conditional payments | **26,641** | (25,453) | (20,000) |
| Issuance of capital stock and participation certificates | **929,710** | 754,230 | 871,170 |
| Retirement of capital stock and participation certificates | **(576,345)** | (596,050) | (672,710) |
| Patronage distributions paid | **(12,424,484)** | (11,883,219) | (11,232,746) |
| Net cash provided by financing activities | **101,215,287** | 63,969,175 | 72,675,767 |
| Net (decrease) increase in cash | **(12,204)** | 6,065 | 19,928 |
| Cash at the beginning of the year | **34,525** | 28,460 | 8,532 |
| Cash at the end of the year | **$ 22,321** | $ 34,525 | $ 28,460 |
| | | | |
| **Supplemental schedule of noncash investing and financing activities:** | | | |
| Loans transferred to other property owned | **733,818** | - | - |
| Loans charged off | **167,513** | 281,293 | 95,642 |
| Patronage distributions declared | **13,424,798** | 12,424,484 | 11,883,219 |
| Adoption of ASC 326, Current Expected Credit Losses | **-** | 1,126,864 | - |
| **Supplemental cash flow information:** | | | |
| Cash paid during the year for: | | | |
| Interest | **$ 51,139,557** | $ 40,266,064 | $ 25,095,213 |

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

## SOUTHERN AGCREDIT, ACA
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 — ORGANIZATION AND OPERATIONS:

A. Organization: Southern AgCredit, ACA, including its wholly owned subsidiaries, Southern AgCredit, PCA and Southern AgCredit, 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 Adams, Amite, Carroll, Claiborne, Clarke, Copiah, Covington, Forrest, Franklin, George, Greene, Grenada, Hancock, Harrison, Hinds, Holmes, Humphreys, Issaquena, Jackson, Jasper, Jefferson, Jefferson Davis, Jones, Kemper, Lamar, Lauderdale, Lawrence, Leake, Leflore, Lincoln, Madison, Marion, Montgomery, Neshoba, Newton, Pearl River, Perry, Pike, Rankin, Scott, Sharkey, Simpson, Smith, Stone, Walthall, Warren, Washington, Wayne, Wilkinson and Yazoo in the state of Mississippi, as well as the parishes of Bienville, Bossier, Caddo, Claiborne, DeSoto, Jackson, Lincoln, Ouachita (west of Ouachita River), Red River, Union and Webster in the state of Louisiana. In addition, the association is the single owner of Parkway Place Investments, LLC and SAC Wawona Investments, LLC, which were organized for the purpose of holding and managing foreclosed property for which the assets, liabilities and results of operations have been consolidated in the association’s financial statements.

   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, 2024, the System consisted of three Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

   The Farm Credit Bank of Texas (bank) and its related associations are collectively referred to as the “district.” The bank provides funding to all associations within the district and is responsible for supervising certain activities of the district associations. At December 31, 2024, the district consisted of the bank, one FLCA and 11 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 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 FCSIC in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, FCSIC is required to reduce premiums as necessary to maintain the Insurance Fund at the 2.0 percent level. As required by the Farm Credit Act, as amended, 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 also serves as an intermediary in offering credit life insurance and multi-peril crop insurance, and providing additional services to borrowers, such as financial management services and an investment bond program.

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

## NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

### *Basis of Presentation and Consolidation*

The consolidated financial statements (the "financial statements") 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, the valuation of deferred tax assets, the determination of fair value of financial instruments and subsequent impairment analysis.

The accounting and reporting policies of the association conform to generally accepted accounting principles in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates are discussed in these notes, as applicable. 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 and the determination of fair value of financial instruments. The consolidated financial statements include the accounts of Southern AgCredit, PCA and Southern AgCredit, FLCA. All significant intercompany transactions have been eliminated in consolidation.

A. Recently Issued or Adopted Accounting Pronouncements:

   In December 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-09 -- Income Taxes: Improvements to Income Tax Disclosures. The amendments in this standard require more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. The amendments in this standard require qualitative disclosure about specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate. The amendments are effective for annual periods beginning after December 15, 2025. The adoption of this guidance is not expected to have a material impact on the association's financial condition, results of operations or cash flows but will impact the income tax disclosures.

   The association recently adopted, effective January 1, 2023, the "Measurement of Credit Losses on Financial Instruments" and other subsequently issued accounting standards updates related to credit losses. This guidance replaced the 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 carried at amortized cost and certain off-balance-sheet credit exposures. This framework requires management to consider in its estimate of the allowance for credit losses relevant historical events, current conditions and reasonable and supportable forecasts that consider macroeconomic conditions. In addition, the guidance amended existing impairment guidance for held-to-maturity and available-for-sale investments to incorporate an allowance for credit losses related to these securities.

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

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

The association's investments include mortgage-backed securities issued by Federal Agricultural Mortgage Corporation (Farmer Mac) for which the association has the intent and ability to hold to maturity and which are consequently classified as held-to-maturity. Held-to-maturity investments are presented net of an allowance for credit losses on investments. Impairment may result from credit deterioration of the issuer or collateral underlying the security. In performing an assessment of whether any decline in fair value is due to a credit loss, all relevant information is considered at the individual security level. For mortgage-backed securities, performance indicators considered relate to the underlying assets, including default rates, delinquency rates, percentage of nonperforming assets, debt-to-collateral ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, analyst reports and forecasts, credit ratings and other market data.

The investments may not necessarily be held to maturity and accordingly have been classified as available-for-sale. These investments are reported at fair value and unrealized holding gains and losses on investments that are reported as a separate component of members' equity (accumulated other comprehensive income (loss)).

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

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

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

Prior to the adoption of CECL guidance, held-to-maturity investments were carried at cost, adjusted for the amortization of premiums and accretion of discounts. Changes in the fair value of these investments were not recorded unless the investment was deemed to be other-than-temporarily impaired. Impairment was considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security was less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If an entity intended to sell an impaired debt security or was more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment was other-than-temporary and would be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss existed, but an entity did not intend to sell the impaired debt security and was not more likely than not to be required to sell before recovery, the impairment was other-than-temporary and should be separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount was recognized in earnings, with the remainder of the loss amount recognized in other comprehensive income.

Impairment may result from credit deterioration of the issuer or collateral underlying the security. In performing an assessment of whether any decline in fair value is due to a credit loss, all relevant information is considered at the individual security level. For mortgage-backed and asset-backed securities, performance indicators considered relate to the underlying assets, including default rates, delinquency rates, percentage of nonperforming assets, debt-to-collateral ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, analyst reports and forecasts, credit ratings and other market data.

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

D. Loans and Allowance for Credit Losses on Loans: Long-term real estate mortgage loans generally have original maturities ranging from five to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 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 not be collected according to the original contractual terms and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is modified or until the entire amount past due, including principal, accrued interest and penalty interest incurred as 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 and investment securities in accrued interest receivable and not as part of loans or investments on the balance sheet. 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 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 balance sheet,
- the allowance for credit losses on unfunded commitments, which is presented on the balance sheet in other liabilities, and
- the allowance for credit losses on investment securities, which covers held-to-maturity and available-for-sale securities and is recognized within each investment securities classification on the balance sheet.

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 component of the ACLL that share common risk characteristics, loans are evaluated collectively and segregated into loan pools considering the risk associated with the specific pool. Relevant risk characteristics include loan type 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 $10^{th}$ percentile and downside $90^{th}$ percentile from third party economic scenarios over a reasonable and supportable forecast period of two years. Subsequent to the forecast period, the association reverts to long-run historical loss experience over a one-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 bank also considers loan and borrower characteristics, such as internal risk ratings, industry, and the remaining term of the loan, adjusted for expected prepayments.

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

Prior to January 1, 2023, the allowance for loan losses was maintained at a level considered adequate to provide for probable losses existing in and inherent in the loan portfolio. The allowance was based on a periodic evaluation of the loan portfolio in which numerous factors were considered, including economic conditions, collateral values, borrowers' financial conditions, loan portfolio composition and prior loan loss experience. The allowance for loan losses encompassed various judgments, evaluations and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity would cause these various judgments, evaluations and appraisals to change over time. Management considered a number of factors in determining and supporting the levels of the allowances for loan losses, which 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 condensed combined statement of condition. 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 institution 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.

E. Capital Stock Investment in the Farm Credit Bank of Texas: The association's investment in the bank is in the form of Class A voting capital stock and allocated retained earnings. This investment is adjusted periodically based on the association's proportional utilization of the bank compared to other district associations. The bank requires a minimum stock investment of 2 percent of the association's average borrowing from the bank. This investment is carried at cost plus allocated equities in the accompanying consolidated balance sheet. Beginning in 2025, this investment requirement will increase to 2.50 percent of the association's average borrowings from the bank and will be determined on a semi-annual basis.

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

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

G. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized. Long-lived assets are reviewed for impairment whenever events or circumstances indicate the carrying amount of an asset group may not be recoverable.

H. Guaranteed Obligations to Government Entities: These obligations represent the association's guarantee of repayment of loans made to borrowers of the association from the Mississippi Development Authority (MDA). The MDA provides these loans to the respective borrower at no interest and must be included with the association's primary loan to the borrower for the production of certain commodities encouraged within the MDA loan assistance program. The association guarantees the full repayment of the loan provided by MDA, but maintains a first lien on related loan collateral.

I. Advance Conditional Payments: The association is authorized under the Act to accept advance payments from borrowers. To the extent that the borrower's access to such funds is restricted, the advance conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheet. Advance conditional payments are not insured. Interest is generally paid by the association on such accounts at rates established by the board of directors.

J. 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, 2024, 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 DB plan of $201,072, $278,814 and $370,908 for the years ended December 31, 2024, 2023 and 2022 respectively. For the DC plan, the association recognized pension costs of $488,089, $450,270 and $479,602 for the years ended December 31, 2024, 2023 and 2022, 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 $350,371, $328,950 and $344,021 for the years ended December 31, 2024, 2023 and 2022, respectively.

In addition to the DB plan, the DC plan and the Farm Credit Benefits Alliance 401(k) plans above, the association sponsors a defined contribution supplemental retirement plan. This plan is a nonqualified 401(k) plan; therefore, the associated liabilities are included in the association's consolidated balance sheet in other liabilities.

In addition to pension benefits, the association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities on the consolidated balance sheet.

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

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

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

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

M. 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."

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

## NOTE 3 — INVESTMENTS – HELD TO MATURITY:

The association may hold mission-related and other investments. In January 2010, $35,192,440 of agricultural mortgage loans previously covered under a Long-Term Standby Commitment to Purchase agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac) were securitized. No gain or loss was recognized in the financial statements upon completion of the securitization. Terms of the agreement call for a guarantee fee of 20-50 basis points to be paid to Farmer Mac, and for the association to receive a 30-basis-point fee for servicing the underlying loans.

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

| **December 31, 2024** | | | | |
|---|---|---|---|---|
| **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Fair Value** | **Weighted Average Yield** |
| **$ 813,931** | **$ 6,141** | **$ -** | **$ 820,072** | **6.18 %** |

| December 31, 2023 | | | | |
|---|---|---|---|---|
| Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Weighted Average Yield |
| $ 912,946 | $ - | $ (16,615) | $ 896,331 | 6.35 % |

| December 31, 2022 | | | | |
|---|---|---|---|---|
| Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Weighted Average Yield |
| $ 1,224,024 | $ - | $ (41,000) | $ 1,183,024 | 5.55 % |

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

A summary of loans as of December 31 follows:

| | **2024** | | **2023** | | **2022** | |
|---|---|---|---|---|---|---|
| **Loan Type** | **Amount** | **%** | **Amount** | **%** | **Amount** | **%** |
| Real estate mortgage | **$ 1,300,546,163** | **82.7%** | $ 1,189,002,826 | 81.6% | $ 1,139,471,583 | 82.7% |
| Production and intermediate-term | **140,368,741** | **8.9%** | 140,177,725 | 9.6% | 133,146,153 | 9.7% |
| Agribusiness: | | | | | | |
| Processing and marketing | **49,705,012** | **3.2%** | 44,932,247 | 3.1% | 43,720,726 | 3.2% |
| Loans to cooperatives | **3,369,702** | **0.2%** | 5,550,883 | 0.4% | 6,728,364 | 0.5% |
| Farm-related business | **3,280,929** | **0.2%** | 9,384,518 | 0.7% | 9,352,125 | 0.7% |
| Communication | **27,838,169** | **1.8%** | 22,212,656 | 1.5% | 24,242,073 | 1.8% |
| Energy | **18,747,456** | **1.2%** | 19,466,890 | 1.3% | 11,592,647 | 0.8% |
| Agricultural export finance | **14,307,534** | **0.9%** | 13,567,510 | 0.9% | 1,970,089 | 0.1% |
| Water and waste-water | **10,015,502** | **0.6%** | 9,883,358 | 0.7% | 4,414,660 | 0.3% |
| Rural residential real estate | **3,662,963** | **0.3%** | 2,718,484 | 0.2% | 2,665,224 | 0.2% |
| Total | **$ 1,571,842,171** | **100.0%** | $ 1,456,897,097 | 100.0% | $ 1,377,303,644 | 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, 2024:

| | Other Farm Credit Institutions | | Non-Farm Credit Institutions | | Total | |
|---|---|---|---|---|---|---|
| | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold |
| Real estate mortgage | $ 29,431,063 | $ 3,154,546 | $ 35,490 | $ - | $ 29,466,553 | $ 3,154,546 |
| Production and intermediate-term | 16,684,695 | 38,652,779 | - | - | 16,684,695 | 38,652,779 |
| Agribusiness | 55,833,898 | - | - | - | 55,833,898 | - |
| Communication | 27,838,169 | - | - | - | 27,838,169 | - |
| Energy | 18,747,456 | - | - | - | 18,747,456 | - |
| Water and waste-water | 10,015,502 | - | - | - | 10,015,502 | - |
| Agricultural export finance | 14,307,534 | - | - | - | 14,307,534 | - |
| Total | $172,858,317 | $ 41,807,325 | $ 35,490 | $ - | $172,893,807 | $ 41,807,325 |

The association also utilizes the Mississippi Development Authority's Agribusiness Enterprise Loan Program (ABE), which is designed to provide a percentage of low-cost state financing combined with private financial lending institutions' loan proceeds to encourage loans to the agribusiness industry in the state. ABE loans totaled $13,673,714, $12,090,628 and $12,531,490 as of December 31, 2024, December 31, 2023 and December 31, 2022, respectively.

**Credit Quality**

Credit risk arises from the potential inability of an obligor to meet its payment obligation and exists in our outstanding loans, letters of credit and unfunded loan commitments. The entity manages credit risk associated with the retail lending activities through an analysis of the credit risk profile of an individual borrower using its own set of underwriting standards and lending policies, approved by its board of directors, which provides direction to its loan officers. The retail credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, financial position and collateral, which includes an analysis of credit scores for smaller loans. Repayment capacity focuses on the borrower's ability to repay the loan based on cash flows from operations or other sources of income, including off-farm income. Real estate mortgage loans must be secured by first liens on the real estate (collateral). As required by Farm Credit Administration regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 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 federal 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 entity uses a two-dimensional risk rating model based on an internally generated combined System risk rating guidance that incorporates a 14-point probability of default rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default. Probability of default is the probability that a borrower will experience a default during the life of the loan. The loss given default is management's estimate as to the anticipated principal loss on a specific loan assuming default occurs during the remaining life of the loan. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower or the loan is classified nonaccrual. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses and risks in a particular relationship. The institution reviews, at least on an annual basis, or when a credit action is taken, the probability of default category.

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

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

The following table shows loans and related accrued interest classified under the Farm Credit Administration's Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31, 2024, 2023 and 2022:

| | **2024** | | 2023 | | 2022 | |
|---|---|---|---|---|---|---|
| Real estate mortgage | | | | | | |
| Acceptable | **99.31** | % | 99.43 | % | 99.16 | % |
| OAEM | **0.36** | | 0.39 | | 0.52 | |
| Substandard/doubtful | **0.33** | | 0.18 | | 0.32 | |
| | **100.00** | | 100.00 | | 100.00 | |
| Production and intermediate term | | | | | | |
| Acceptable | **98.79** | | 99.23 | | 99.94 | |
| OAEM | **0.18** | | 0.05 | | 0.06 | |
| Substandard/doubtful | **1.03** | | 0.72 | | - | |
| | **100.00** | | 100.00 | | 100.00 | |
| Loans to cooperatives | | | | | | |
| Acceptable | **100.00** | | 100.00 | | 100.00 | |
| OAEM | **-** | | - | | - | |
| Substandard/doubtful | **-** | | - | | - | |
| | **100.00** | | 100.00 | | 100.00 | |
| Processing and marketing | | | | | | |
| Acceptable | **99.67** | | 100.00 | | 96.98 | |
| OAEM | **0.33** | | - | | - | |
| Substandard/doubtful | **-** | | - | | 3.02 | |
| | **100.00** | | 100.00 | | 100.00 | |
| Farm-related business | | | | | | |
| Acceptable | **100.00** | | 100.00 | | 100.00 | |
| OAEM | **-** | | - | | - | |
| Substandard/doubtful | **-** | | - | | - | |
| | **100.00** | | 100.00 | | 100.00 | |
| Communication | | | | | | |
| Acceptable | **98.04** | | 92.22 | | 100.00 | |
| OAEM | **1.96** | | 7.78 | | - | |
| Substandard/doubtful | **-** | | - | | - | |
| | **100.00** | | 100.00 | | 100.00 | |
| Energy | | | | | | |
| Acceptable | **100.00** | | 100.00 | | 100.00 | |
| OAEM | **-** | | - | | - | |
| Substandard/doubtful | **-** | | - | | - | |
| | **100.00** | | 100.00 | | 100.00 | |
| Water and waste-water | | | | | | |
| Acceptable | **100.00** | | 100.00 | | 100.00 | |
| OAEM | **-** | | - | | - | |
| Substandard/doubtful | **-** | | - | | - | |
| | **100.00** | | 100.00 | | 100.00 | |
| Rural residential real estate | | | | | | |
| Acceptable | **100.00** | | 100.00 | | 100.00 | |
| OAEM | **-** | | - | | - | |
| Substandard/doubtful | **-** | | - | | - | |
| | **100.00** | | 100.00 | | 100.00 | |
| Agricultural export finance | | | | | | |
| Acceptable | **100.00** | | 100.00 | | 100.00 | |
| OAEM | **-** | | - | | - | |
| Substandard/doubtful | **-** | | - | | - | |
| | **100.00** | | 100.00 | | 100.00 | |
| Total Loans | | | | | | |
| Acceptable | **99.27** | | 99.34 | | 99.20 | |
| OAEM | **0.36** | | 0.44 | | 0.44 | |
| Substandard/doubtful | **0.37** | | 0.22 | | 0.36 | |
| | **100.00** | % | 100.00 | % | 100.00 | % |

Accrued interest receivable on loans of $16,387,734, $14,513,068 and $11,789,150 million at December 31, 2024, 2023 and 2022, respectively, has been excluded from the amortized cost of loans and is reported separately in the balance sheet.

**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:

| State | **2024** | 2023 | 2022 |
|---|---|---|---|
| Mississippi | **84.2%** | 85.6% | 85.9% |
| Louisiana | **8.5%** | 8.6% | 8.6% |
| Other | **7.2%** | 5.8% | 5.5% |

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.

| | **2024** | | 2023 | | 2022 | |
|---|---|---|---|---|---|---|
| Operation/Commodity | **Amount** | **%** | Amount | % | Amount | % |
| Rural Real Estate | **$ 531,126,124** | **33.8%** | $ 565,317,759 | 38.7% | $ 524,563,596 | 38.1% |
| Timber | **330,331,337** | **21.0%** | 232,755,015 | 16.0% | 231,455,906 | 16.8% |
| Livestock, except dairy and poultry | **238,515,118** | **15.2%** | 215,466,838 | 14.8% | 206,521,697 | 15.0% |
| Cash grains | **154,957,019** | **9.9%** | 136,927,213 | 9.4% | 123,760,574 | 9.0% |
| Poultry and eggs | **143,733,595** | **9.1%** | 135,021,518 | 9.3% | 134,704,458 | 9.8% |
| Other | **44,606,984** | **2.8%** | 41,314,256 | 2.8% | 37,611,198 | 2.7% |
| Food and kindred products | **28,956,438** | **1.8%** | 29,347,197 | 2.0% | 32,359,225 | 2.3% |
| Field crops except cash grains | **23,742,816** | **1.5%** | 24,421,951 | 1.7% | 27,083,651 | 2.0% |
| General farms, primarily crops | **23,031,184** | **1.5%** | 20,045,513 | 1.4% | 19,556,074 | 1.4% |
| Cable and other pay television services | **17,822,265** | **1.1%** | 18,785,941 | 1.3% | 20,660,227 | 1.5% |
| Grain and field beans | **14,307,534** | **0.9%** | 15,763,510 | 1.1% | 5,015,303 | 0.4% |
| Paper mills | **10,456,494** | **0.7%** | 10,977,252 | 0.8% | 11,592,647 | 0.8% |
| Electric services | **10,255,263** | **0.7%** | 10,753,134 | 0.7% | 2,419,088 | 0.2% |
| Total | **$ 1,571,842,171** | **100.0%** | $ 1,456,897,097 | 100.0% | $ 1,377,303,644 | 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 Federal government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the association in the collateral, may result in the loan-to-value ratios in excess of the regulatory maximum.

To mitigate the risk of loan losses, the association has obtained loan guarantees in the form of standby commitments to purchase qualifying loans from Farmer Mac through an arrangement with the bank. The agreements, which will remain in place until the loans are paid in full, give the association the right to sell the loans identified in the agreements to Farmer Mac in the event of defaults (typically four months past due), subject to certain conditions. At December 31, 2024, 2023 and 2022, loans totaling $116,569,197, $49,432,629 and $51,875,803, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $220,064, $214,395 and $121,051 in 2024, 2023 and 2022, respectively, and are included in "other noninterest expense."

The following table reflects nonperforming assets, which consists of nonaccrual loans, accruing loans 90 days or more past due and other property owned:

| | December 31, 2024 | December 31, 2023 | December 31, 2022 |
|---|---|---|---|
| **Nonaccrual loans:** | | | |
| Real estate mortgage | **$ 222,104** | $ 196,837 | $ 666,741 |
| Production and intermediate-term | **59,687** | 996,239 | - |
| Total nonaccrual loans | **281,791** | 1,193,076 | 666,741 |
| **Accruing restructured loans*:** | | | |
| Real estate mortgage | **-** | - | 566,744 |
| Production and intermediate-term | **-** | - | 66,417 |
| Total accruing restructured loans | **-** | - | 633,161 |
| **Other property owned** | **193,021** | - | - |
| **Total nonperforming assets** | **$ 474,812** | $ 1,193,076 | $ 1,299,902 |
| Nonaccrual loans as a percentage of total loans | **0.0%** | 0.1% | 0.0% |
| Nonperforming assets as a percentage of total loans and other property owned | **0.0%** | 0.1% | 0.1% |
| Nonperforming assets as a percentage of capital | **0.2%** | 0.6% | 0.6% |

* January 1, 2023, the association adopted the Financial Accounting Standards Board (FASB) guidance entitled "Measurement of Credit Losses on Financial Instruments" and "Financial Instruments – Credit Losses: Troubled Debt Restructurings and Vintage Disclosure." The adoption eliminated the accounting guidance for troubled debt restructurings by creditors and required all financial assets to be measured at amortized cost as described in Note 2, "Summary of Significant Accounting Policies."

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

| | December 31, 2024 | | | |
|---|---|---|---|---|
| | **Amortized Cost with Allowance** | **Amortized Cost without Allowance** | **Total** | **Interest Income Recognized** |
| **Nonaccrual loans:** | | | | |
| Real estate mortgage | $ - | $ 222,104 | $ 222,104 | $ 16,055 |
| Production and intermediate-term | $ 59,687 | $ - | $ 59,687 | $ - |
| **Total nonaccrual loans** | $ 59,687 | $ 222,104 | $ 281,791 | $ 16,055 |

| | December 31, 2023 | | | |
|---|---|---|---|---|
| | **Amortized Cost with Allowance** | **Amortized Cost without Allowance** | **Total** | **Interest Income Recognized** |
| **Nonaccrual loans:** | | | | |
| Real estate mortgage | $ 64,107 | $ 132,730 | $ 196,837 | $ 164,676 |
| Production and intermediate-term | 996,239 | - | 996,239 | - |
| **Total nonaccrual loans** | $ 1,060,346 | $ 132,730 | $ 1,193,076 | $ 164,676 |

The following tables provide an aging analysis of past due loans at amortized cost by portfolio segment as of December 31, 2024 and December 31, 2023:

| **December 31, 2024:** | **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** |
|---|---|---|---|---|---|
| **Real estate mortgage** | **$ 2,675,095** | **$ 17,287** | **$ 2,692,382** | **$ 1,297,853,781** | **$ 1,300,546,163** |
| **Production and intermediate-term** | **354,065** | **-** | **354,065** | **140,014,676** | **140,368,741** |
| **Loans to cooperatives** | **-** | **-** | **-** | **3,369,702** | **3,369,702** |
| **Processing and marketing** | **-** | **-** | **-** | **49,705,012** | **49,705,012** |
| **Farm-related business** | **-** | **-** | **-** | **3,280,929** | **3,280,929** |
| **Communication** | **-** | **-** | **-** | **27,838,169** | **27,838,169** |
| **Energy** | **-** | **-** | **-** | **18,747,456** | **18,747,456** |
| **Water and waste-water** | **-** | **-** | **-** | **10,015,502** | **10,015,502** |
| **Rural residential real estate** | **-** | **-** | **-** | **3,662,963** | **3,662,963** |
| **Agricultural export finance** | **-** | **-** | **-** | **14,307,534** | **14,307,534** |
| **Total** | **$ 3,029,160** | **$ 17,287** | **$ 3,046,447** | **$ 1,568,795,724** | **$ 1,571,842,171** |

| **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** |
|---|---|---|---|---|---|
| Real estate mortgage | $ 5,732,370 | $ 15,869 | $ 5,748,239 | $ 1,183,254,587 | $ 1,189,002,826 |
| Production and intermediate-term | 898,369 | 167,823 | 1,066,192 | 139,111,533 | 140,177,725 |
| Loans to cooperatives | - | - | - | 5,550,883 | 5,550,883 |
| Processing and marketing | - | - | - | 44,932,247 | 44,932,247 |
| Farm-related business | - | - | - | 9,384,518 | 9,384,518 |
| Communication | - | - | - | 22,212,656 | 22,212,656 |
| Energy | - | - | - | 19,466,890 | 19,466,890 |
| Water and waste-water | - | - | - | 9,883,358 | 9,883,358 |
| Rural residential real estate | - | - | - | 2,718,484 | 2,718,484 |
| Agricultural export finance | - | - | - | 13,567,510 | 13,567,510 |
| Total | $ 6,630,739 | $ 183,692 | $ 6,814,431 | $ 1,450,082,666 | $ 1,456,897,097 |

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** |
|---|---|---|---|---|---|
| Real estate mortgage | $ 1,841,392 | $ 38,946 | $ 1,880,338 | $ 1,147,437,845 | $ 1,149,318,183 |
| Production and intermediate-term | 63,255 | - | 63,255 | 134,477,301 | 134,540,556 |
| Loans to cooperatives | - | - | - | 6,739,978 | 6,739,978 |
| Processing and marketing | - | - | - | 43,893,050 | 43,893,050 |
| Farm-related business | - | - | - | 9,416,370 | 9,416,370 |
| Communication | - | - | - | 24,343,540 | 24,343,540 |
| Energy | - | - | - | 11,753,514 | 11,753,514 |
| Water and waste-water | - | - | - | 4,416,028 | 4,416,028 |
| Rural residential real estate | - | - | - | 2,673,851 | 2,673,851 |
| Agricultural export finance | - | - | - | 1,997,731 | 1,997,731 |
| Total | $ 1,904,647 | $ 38,946 | $ 1,943,593 | $ 1,387,149,208 | $ 1,389,092,801 |

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.

### 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, 2024, the association did not grant any loan modifications to borrowers experiencing financial difficulty.

### Troubled Debt Restructurings

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

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

| | Loans Modified as TDRs | TDRs in Nonaccrual Status* |
|---|---|---|
| | December 31, 2022 | December 31, 2022 |
| Troubled debt restructurings: | | |
| Real estate mortgage | $ 826,737 | $ 259,933 |
| Production and intermediate-term | 66,417 | - |
| Total | $ 893,154 | $ 259,933 |

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

### Allowance for Credit Losses

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

A summary of changes in the allowance for credit losses by portfolio segment for the years ended December 31, 2024 and December 31, 2023 are as follows:

| | Real Estate Mortgage | Production and Intermediate Term | Agribusiness | Communication | Energy | Water and Waste-water | Rural Residential Real Estate | Agricultural Export Finance | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Allowance for Credit Losses on Loans:** | | | | | | | | | |
| Balance at December 31, 2023 | $ 2,659,690 | $ 458,153 | $ 107,361 | $ 35,825 | $ 4,595 | $ 8,749 | $ 5,469 | $ 7,446 | $ 3,287,288 |
| Charge-offs | | (167,514) | | | | | | | (167,514) |
| Recoveries | | | | | | | | | - |
| Provision for loan losses (loan loss reversal) | 388,423 | (127,703) | (32,837) | 41,846 | (678) | 118 | 2,891 | (814) | 271,246 |
| Other | | | | | | | | | - |
| Balance at December 31, 2024 | **$ 3,048,113** | **$ 162,936** | **$ 74,524** | **$ 77,671** | **$ 3,917** | **$ 8,867** | **$ 8,360** | **$ 6,632** | **$ 3,391,020** |
| **Allowance for Credit Losses on Unfunded Commitments:** | | | | | | | | | |
| Balance at December 31, 2023 | $ 7,488 | $ 11,503 | $ 26,944 | $ - | $ - | $ 1,000 | $ - | $ 4,141 | $ 51,076 |
| Provision for unfunded commitments | (4,349) | 10,830 | (8,867) | 2,644 | | (130) | | (1,213) | (1,085) |
| Balance at December 31, 2024 | **$ 3,139** | **$ 22,333** | **$ 18,077** | **$ 2,644** | **$ -** | **$ 870** | **$ -** | **$ 2,928** | **$ 49,991** |

| | Real Estate Mortgage | Production and Intermediate Term | Agribusiness | Communication | Energy | Water and Waste-water | Rural Residential Real Estate | Agricultural Export Finance | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Allowance for Credit Losses on Loans:** | | | | | | | | | |
| Balance at December 31, 2022 | $ 1,285,439 | $ 199,289 | $ 127,379 | $ 15,081 | $ 1,113 | $ 3,530 | $ 3,107 | $ 2,030 | $ 1,636,968 |
| Cumulative effect of a change in accounting principle | 1,195,421 | (106,323) | 36,605 | 2,711 | 300 | 933 | 2,364 | (1,055) | 1,130,956 |
| Balance at January 1, 2023 | 2,480,860 | 92,966 | 163,984 | 17,792 | 1,413 | 4,463 | 5,471 | 975 | 2,767,924 |
| Charge-offs | - | (281,293) | - | - | - | - | - | - | (281,293) |
| Recoveries | - | - | - | - | - | - | - | - | - |
| Provision for loan losses (loan loss reversal) | 168,458 | 645,688 | (62,361) | 18,033 | 3,182 | 5,145 | (2) | 6,689 | 784,832 |
| Other | 10,372 | 792 | 5,738 | - | - | (859) | - | (218) | 15,825 |
| Balance at December 31, 2023 | **$ 2,659,690** | **$ 458,153** | **$ 107,361** | **$ 35,825** | **$ 4,595** | **$ 8,749** | **$ 5,469** | **$ 7,446** | **$ 3,287,288** |
| | | | | | | | | | |
| **Allowance for Credit Losses on Unfunded Commitments:** | | | | | | | | | |
| Balance at December 31, 2022 | $ 13,239 | $ 31,024 | $ 24,620 | $ - | $ - | $ - | $ - | $ 2,110 | $ 70,993 |
| Cumulative effect of a change in accounting principle | 4,621 | (18,729) | 8,062 | - | - | 141 | - | 1,813 | (4,092) |
| Balance at January 1, 2023 | 17,860 | 12,295 | 32,682 | - | - | 141 | - | 3,923 | 66,901 |
| Provision for unfunded commitments | (10,372) | (792) | (5,738) | - | - | 859 | - | 218 | (15,825) |
| Balance at December 31, 2023 | **$ 7,488** | **$ 11,503** | **$ 26,944** | **$ -** | **$ -** | **$ 1,000** | **$ -** | **$ 4,141** | **$ 51,076** |

The allowance for credit losses as of December 31, 2024 was $3,391,020, reflecting an increase of $103,732 from December 31, 2023. The increase was driven by an increase in loan volume offset by the reduction in specific reserves on a capital market loan to one borrower.

The economic scenarios utilized in the December 31, 2024, estimate for the allowance for credit losses were based on the following: a baseline scenario which represents a relatively stable economic environment; a downside scenario reflecting an economic recession during 2025; and an upside scenario that considers the potential for economic improvement relative to the baseline.

### Allowance for Credit Losses – Prior to CECL Adoption

A summary of changes in the allowance for loan losses is as follows:

| | Real Estate Mortgage | Production and Intermediate Term | Agribusiness | Communication | Energy | Water and Waste-water | Rural Residential Real Estate | Agricultural Export Finance | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Allowance for Credit Losses:** | | | | | | | | | |
| Balance at December 31, 2021 | $ 1,278,016 | $ 200,424 | $ 141,102 | $ 14,727 | $ 1,310 | $ 1,897 | $ 4,223 | $ 1,287 | $ 1,642,986 |
| Charge-offs | (11,873) | (83,769) | - | - | - | - | - | - | (95,642) |
| Recoveries | - | - | - | - | - | - | - | - | - |
| Provision for loan losses | 32,535 | 91,758 | (20,520) | 134 | (1,334) | 1,633 | (1,116) | 2,096 | 105,186 |
| Other | (13,239) | (9,124) | 6,797 | 220 | 1,137 | | - | (1,353) | (15,562) |
| Balance at December 31, 2022 | $ 1,285,439 | $ 199,289 | $ 127,379 | $ 15,081 | $ 1,113 | $ 3,530 | $ 3,107 | $ 2,030 | $ 1,636,968 |

## 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 sheet. Estimating the fair value of the association's investment in the Farm Credit Bank of Texas is not practicable because the stock is not traded. The association owned 5.01 percent, 4.92 percent and 4.83 percent of the issued stock of the bank as of December 31, 2024, 2023 and 2022. As of those dates, the bank's assets totaled $39.5, $37.2 and $36.0 (in billions) and members' equity totaled $1.8, $1.7 and $1.6 (in millions). The bank's earnings were $222.0, $199.9 and $269.9 (in millions) during 2024, 2023 and 2022.

## NOTE 6 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

| | **2024** | 2023 | 2022 |
|---|---|---|---|
| Land and improvements | **$ 3,982,168** | $ 3,982,168 | $ 4,101,168 |
| Building and improvements | **16,136,544** | 13,691,123 | 5,200,353 |
| Furniture and equipment | **1,407,364** | 1,408,985 | 1,052,958 |
| Computer equipment and software | **1,247,409** | 1,256,826 | 1,239,228 |
| Automobiles | **1,984,444** | 1,661,278 | 1,171,637 |
| Construction in progress | **-** | - | 7,561,454 |
| | **24,757,929** | 22,000,380 | 20,326,798 |
| Accumulated depreciation | **(3,776,510)** | (3,061,560) | (2,484,015) |
| Total | **$ 20,981,419** | $ 18,938,820 | $ 17,842,783 |

The association leased office space in Brookhaven and Meridian in 2024. The association entered into a three-year lease for the Meridian location in June of 2022. The association does not plan to renew the Meridian lease in 2025. The Brookhaven lease was terminated upon the completion of the Brookhaven office building in October 2024. The association also has various leases for postage machines. Lease expense was $40,392, $113,940 and $64,609 for 2024, 2023 and 2022, respectively. Minimum annual lease payments for the next five years are as follows:

| | | Operating Leases |
|---|---|---|
| 2025 | $ | 22,824 |
| 2026 | | 10,059 |
| 2027 | | 7,103 |
| 2028 | | - |
| 2029 | | - |
| Thereafter | | - |
| Total | $ | 39,986 |

**NOTE 7 — OTHER PROPERTY OWNED, NET:**

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

| | | **2024** | | 2023 | | 2022 |
|---|---|---|---|---|---|---|
| Gain (loss) on sale, net | **$** | **-** | $ | - | $ | 2,322 |
| Operating income (expense), net | | **-** | | (336) | | (19,754) |
| Net gain (loss) on other property owned | **$** | **-** | $ | (336) | $ | (17,432) |

The other property owned for the current year includes the association's pro rata share of collateral acquired through the bankruptcy proceedings of a capital markets participation loan. The 2022 gain is related to the sale of one property offset by the loss on two other properties. The 2022 and 2023 operating expense includes maintenance, utilities and property taxes for the properties that were disposed in 2023.

**NOTE 8 — OTHER ASSETS AND OTHER LIABILITIES:**

Other assets comprised the following at December 31:

| | | **2024** | | 2023 | | 2022 |
|---|---|---|---|---|---|---|
| Captive insurance receivable | **$** | **436,293** | $ | 431,495 | $ | 467,997 |
| Accounts receivable | | **36,942** | | 43,265 | | 26,740 |
| Prepaid and other assets | | **448,816** | | 353,013 | | 411,823 |
| Total | **$** | **922,051** | $ | 827,773 | $ | 906,560 |

Other liabilities comprised the following at December 31:

| | | **2024** | | 2023 | | 2022 |
|---|---|---|---|---|---|---|
| Accumulated postretirement benefit obligation | **$** | **3,127,117** | $ | 2,868,566 | $ | 2,795,122 |
| Payroll and benefits payable | | **3,335,933** | | 2,608,977 | | 2,503,293 |
| Accounts payable and other | | **2,236,683** | | 3,070,384 | | 3,263,108 |
| Total | **$** | **8,699,733** | $ | 8,547,927 | $ | 8,561,523 |

**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. The interest rate on the direct loan is based upon the bank's cost of funding the loans the association has outstanding to its borrowers. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2025, 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, 2024, 2023 and 2022, was $1,373,990,419 at 3.96 percent, $1,262,595,133 at 3.65 percent and $1,186,601,640 at 2.91 percent, respectively.

Under the Act, the association is obligated to borrow only from the bank unless the bank approves borrowing from other funding sources. The bank and FCA regulations have established limitations on the association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2024, 2023 and 2022, the association's note payable was within the specified limitations. The maximum amount the association may borrow from the bank as of December 31, 2024, was $1,572,010,098, as defined by the general financing agreement.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt, and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the general financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits or repayment of indebtedness. As of and for the years ended December 31, 2024, 2023 and 2022, the association was not subject to remedies associated with the covenants in the general financing agreement.

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

**NOTE 10 — MEMBERS' EQUITY:**

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

*Capital Stock*

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

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our board of directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2024, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

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

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

Each owner of Class A and 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 A 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, 2024, 2023 and 2022, 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 A, Class C 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.

| | **2024** | 2023 | 2022 |
|---|---|---|---|
| Class A stock | **1,138,266** | 1,070,317 | 1,039,800 |
| Participation certificates | **9,838** | 7,114 | 5,995 |
| Total | **1,148,104** | 1,077,431 | 1,045,795 |

*Dividends and Patronage*

Dividends and patronage distributions may be paid on the capital stock and participation certificates of the association, as the board of directors may determine by resolution, subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. The following dividends and patronage distributions were declared and paid in 2024, 2023 and 2022, respectively:

| Date Declared | Date Paid | Patronage |
|---|---|---|
| **December 2024** | **February 2025** | **13,424,798** |
| December 2023 | February 2024 | 12,424,484 |
| December 2022 | February 2023 | 11,883,219 |

*Regulatory Capital Requirements*

The Farm Credit Administration sets minimum regulatory capital requirements for banks and associations. As of December 31, 2024, the association is not prohibited from retiring stock or distributing earnings. Furthermore, neither the board nor senior management knows of any such prohibitions that may apply during the subsequent fiscal year.

The following sets forth the regulatory capital ratio requirements and ratios at December 31, 2024:

| Risk-weighted: | Regulatory Minimums | Regulatory Minimums with Buffer | As of December 31, 2024 |
|---|---|---|---|
| Common equity tier 1 ratio | 4.50% | 7.00% | 13.62% |
| Tier 1 capital ratio | 6.00% | 8.50% | 13.62% |
| Total capital ratio | 8.00% | 10.50% | 13.83% |
| Permanent capital ratio | 7.00% | 7.00% | 13.64% |
| Non-risk-weighted: | | | |
| Tier 1 leverage ratio | 4.00% | 5.00% | 13.22% |
| UREE leverage ratio | 1.50% | 1.50% | 8.92% |

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

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

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

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

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System 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 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System 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, 2024:

| | Common equity tier 1 ratio | Tier 1 capital ratio | Total capital ratio | Permanent capital ratio |
|---|---|---|---|---|
| Numerator: | | | | |
| Unallocated retained earnings | 95,209,763 | 95,209,763 | 95,209,763 | 95,209,763 |
| Paid-in capital | 10,238,891 | 10,238,891 | 10,238,891 | 10,238,891 |
| Common Cooperative Equities: | | | | |
| Statutory minimum purchased borrower stock | 5,702,589 | 5,702,589 | 5,702,589 | 5,702,589 |
| Other required member purchased stock held <5 years | | | | |
| Other required member purchased stock held ≥ 5 years but < 7 years | | | | |
| Other required member purchased stock held ≥7 years | | | | |
| Allocated equities: | | | | |
| Allocated equities held <5 years | | | | |
| Allocated equities held ≥5 years but < 7 years | | | | |
| Allocated equities held ≥7 | 62,452,680 | 62,452,680 | 62,452,680 | 62,452,680 |
| Nonqualified allocated equities not subject to retirement | 61,381,746 | 61,381,746 | 61,381,746 | 61,381,746 |
| Non-cumulative perpetual preferred stock | | - | - | - |
| Other preferred stock subject to certain limitations | | | - | - |
| Subordinated debt subject to certain limitations | | | | |
| Allowance for loan losses and reserve for credit losses subject to certain limitations* | | | 3,238,029 | |
| Regulatory Adjustments and Deductions: | | | | |
| Amount of allocated investments in other System institutions | (25,436,497) | (25,436,497) | (25,436,497) | (25,436,497) |
| Other regulatory required deductions | - | - | - | - |
| | 209,549,172 | 209,549,172 | 212,787,201 | 209,549,172 |
| Denominator: | | | | |
| Risk-adjusted assets excluding allowance | 1,564,378,697 | 1,564,378,697 | 1,564,378,697 | 1,564,378,697 |
| Regulatory Adjustments and Deductions: | | | | |
| Regulatory deductions included in total capital | (25,436,497) | (25,436,497) | (25,436,497) | (25,436,497) |
| Allowance for loan losses | | | | (3,182,721) |
| | 1,538,942,200 | 1,538,942,200 | 1,538,942,200 | 1,535,759,479 |

*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, 2024:

| | Tier 1 leverage ratio | UREE leverage ratio |
|---|---|---|
| Numerator: | | |
| Unallocated retained earnings | 95,209,763 | 95,209,763 |
| Paid-in capital | 10,238,891 | 10,238,891 |
| Common Cooperative Equities: | | |
| Statutory minimum purchased borrower stock | 5,702,589 | - |
| Other required member purchased stock held <5 years | | |
| Other required member purchased stock held ≥ 5 years but < 7 years | | |
| Other required member purchased stock held ≥7 years | | |
| Allocated equities: | | |
| Allocated equities held <5 years | | |
| Allocated equities held ≥5 years but < 7 years | | |
| Allocated equities held ≥7 | 62,452,680 | - |
| Nonqualified allocated equities not subject to retirement | 61,381,746 | 61,381,746 |
| Non-cumulative perpetual preferred stock | - | |
| Other preferred stock subject to certain limitations | | |
| Subordinated debt subject to certain limitations | | |
| Allowance for loan losses and reserve for credit losses subject to certain limitations | | |
| Regulatory Adjustments and Deductions: | | |
| Amount of allocated investments in other System institutions | (25,436,497) | (25,436,497) |
| Other regulatory required deductions | - | - |
| | 209,549,172 | 141,393,903 |
| Denominator: | | |
| Total Assets | 1,616,828,704 | 1,616,828,704 |
| Regulatory Adjustments and Deductions: | | |
| Regulatory deductions included in tier 1 capital | (31,831,228) | (31,831,228) |
| | 1,584,997,476 | 1,584,997,476 |

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

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

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

| | 2024 | 2023 | 2022 |
|---|---|---|---|
| Accumulated other comprehensive income (loss) at January 1 | **$ 504,388** | $ 588,359 | $(202,103) |
| Actuarial gains (losses) | **(210,561)** | (42,612) | 803,960 |
| Prior service (cost) credit | **-** | - | - |
| Amortization of prior service (credit) costs included | **(13,498)** | (13,498) | (13,498) |
| in salaries and employee benefits | **-** | - | - |
| Amortization of actuarial (gain) loss included in salaries and employee benefits | **(21,014)** | (27,861) | - |
| Income tax expense related to items of other comprehensive income | **-** | - | - |
| Other comprehensive income (loss), net of tax | **(245,073)** | (83,971) | 790,462 |
| Accumulated other comprehensive income at December 31 | **$ 259,315** | $ 504,388 | $ 588,359 |

**NOTE 11 — INCOME TAXES:**

There has been no provision for (benefit from) income taxes for the years ended December 31, 2024, 2023 and 2022.

The difference in the statutory tax rate and the effective tax rate is primarily due to the tax exemption of the association and FLCA subsidiary earnings. The provision for (benefit from) income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows for the years ended December 31:

| | 2024 | 2023 | 2022 |
|---|---|---|---|
| Federal tax at statutory rate | **$ 4,977,703** | $ 4,359,104 | $ 5,024,957 |
| Effect of nontaxable FLCA subsidiary | **(4,897,228)** | (4,237,539) | (4,842,598) |
| Patronage distributions | **(110,284)** | (142,354) | (178,477) |
| Change in valuation allowance | **5,117** | (486) | (3,882) |
| Other | **24,692** | 21,275 | - |
| Provision for (benefit from) income taxes | **$ -** | $ - | $ - |

Deferred tax assets and liabilities are comprised of the following at December 31:

| | 2024 | 2023 | 2022 |
|---|---|---|---|
| Deferred Tax Assets | | | |
| Allowance for loan losses | **$ 30,567** | $ 19,383 | $ 53,409 |
| Loss carryforwards | **456,816** | 456,816 | 456,816 |
| Gross deferred tax assets | **487,383** | 476,199 | 510,225 |
| Less: Valuation allowance | | | |
| Deferred tax asset, net of valuation allowance | **(397,522)** | (392,406) | (429,191) |
| Deferred Tax Liabilities | | | |
| Loan fees net of deferred tax cost | **(89,861)** | (83,793) | (81,034) |
| Gross deferred tax liabilities | **(89,861)** | (83,793) | (81,034) |
| Net deferred tax asset (liability) | **$ -** | $ - | $ - |

As of December 31, 2024, the association has a net operating loss carryforward of $2,175,313 available to offset against future taxable income that will begin to expire in 2030. The calculation of tax assets and liabilities involves various management estimates and assumptions as to the future taxable earnings. At December 31, 2024, nonpatronage income is expected to be 0 percent of the total taxable basis. The expected future tax rates are based on enacted tax laws.

The ACA is required to maintain an investment in the bank of 2 percent of the average direct note. This investment can be held by both the PCA and FLCA. A deferred tax liability is established for the PCA for any excess investment in the bank over that allocated to the 2 percent investment requirement.

The association recorded valuation allowances of $397,522, $392,406 and $429,191 during 2024, 2023 and 2022, respectively. The association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year, and the association has no unrecognized tax benefits at December 31, 2024, for which liabilities have been established. The association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2021 and forward.

**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 J 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.

The association elected to participate in the Supplemental 401(k) Plan. Contributions of $350,371, $328,950 and $$344,021 were made to this plan for the years ended December 31, 2024, 2023 and 2022. There were no payments made from the Supplemental 401(k) Plan to active employees during 2024, 2023 and 2022.

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, 2024.

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 contributions, and the percentage of association contribution to total plan contributions for the years ended December 31, 2024, 2023 and 2022:

| | **2024** | 2023 | 2022 |
|---|---|---|---|
| Funded status of plan | **75.7 %** | 73.3 % | 70.9 % |
| Association's contribution | **$ 201,072** | $ 278,814 | $ 370,908 |
| Percentage of association's contribution to total contributions | **5.4 %** | 4.3 % | 3.6 % |

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 76.2 percent, 74.1 percent and 71.8 percent at December 31, 2024, 2023 and 2022, respectively.

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

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

**Retiree Welfare Benefit Plans**

| **Disclosure Information Related to Retirement Benefits** | **2024** | **2023** | **2022** |
|---|---|---|---|
| **Change in Accumulated Postretirement Benefit Obligation** | | | |
| Accumulated postretirement benefit obligation, beginning of year | **$ 2,868,566** | $ 2,795,122 | $ 3,578,740 |
| Service cost | **22,769** | 24,523 | 39,800 |
| Interest cost | **153,963** | 141,612 | 110,298 |
| Plan participants' contributions | **19,294** | 21,446 | 29,119 |
| Actuarial loss (gain) | **210,561** | 42,612 | (803,960) |
| Benefits paid | **(148,036)** | (156,749) | (158,875) |
| Accumulated postretirement benefit obligation, end of year | **$ 3,127,117** | $ 2,868,566 | $ 2,795,122 |
| **Change in Plan Assets** | | | |
| Plan assets at fair value, beginning of year | **$ -** | $ - | $ - |
| Company contributions | **128,742** | 135,303 | 129,756 |
| Plan participants' contributions | **19,294** | 21,446 | 29,119 |
| Benefits paid | **(148,036)** | (156,749) | (158,875) |
| Plan assets at fair value, end of year | **$ -** | $ - | $ - |
| Funded status of the plan | **$ (3,127,117)** | $ (2,868,566) | $ (2,795,122) |
| **Amounts Recognized on the Balance Sheets** | | | |
| Other liabilities | **$ (3,127,117)** | $ (2,868,566) | $ (2,795,122) |
| **Amounts Recognized in Accumulated Other Comprehensive Income** | | | |
| Net actuarial loss (gain) | **$ (238,525)** | $ (470,100) | $ (540,573) |
| Prior service cost (credit) | **(20,790)** | (34,288) | (47,786) |
| Total | **$ (259,315)** | $ (504,388) | $ (588,359) |
| **Weighted-Average Assumptions Used to Determine Obligations at Year End** | | | |
| Measurement date | **12/31/2024** | **12/31/2023** | **12/31/2022** |
| Discount rate | **5.35%** | 5.50% | 5.20% |
| Health care cost trend rate assumed for next year (pre-/post-65) - medical | **9.20%/10.80%** | 7.50%/8.40% | 7.20%/7.70% |
| Ultimate health care cost trend rate | **4.50%** | 4.50% | 4.50% |
| Year that the rate reaches the ultimate trend rate | **2034** | 2034 | 2031 |

| Total Cost | 2024 | 2023 | 2022 |
|---|---|---|---|
| Service cost | **$ 22,220** | $ 22,769 | $ 39,800 |
| Interest cost | **163,670** | 153,963 | 110,298 |
| Amortization of: | | | |
| Unrecognized prior service cost | **(13,498)** | (13,498) | (13,498) |
| Unrecognized net loss (gain) | **-** | (21,014) | - |
| Net postretirement benefit cost | **$ 172,392** | $ 142,220 | $ 136,600 |
| **Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income** | | | |
| Net actuarial loss (gain) | **$ 210,561** | $ 42,612 | $ (803,960) |
| Amortization of net actuarial loss (gain) | **21,014** | 27,861 | - |
| Prior service cost (credit) | **-** | - | - |
| Amortization of prior service cost | **13,498** | 13,498 | 13,498 |
| Total recognized in other comprehensive income | **$ 245,073** | $ 83,971 | $ (790,462) |
| **AOCI Amounts Expected to be Amortized Into Expense in 2025** | | | |
| Unrecognized prior service cost | **(13,498)** | (13,498) | (13,498) |
| Unrecognized net loss (gain) | **-** | (21,014) | (27,861) |
| Total | **$ (13,498)** | $ (34,512) | $ (41,359) |
| **Weighted-Average Assumptions Used to Determine Benefit Cost** | | | |
| Measurement date | **12/31/2023** | **12/30/2022** | **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 | **2033** | 2031 | 2030 |

**Expected Future Cash Flows**

| Expected Benefit Payments (net of employee contributions) | |
|---|---|
| Fiscal 2025 | **$ 137,519** |
| Fiscal 2026 | **155,097** |
| Fiscal 2027 | **172,922** |
| Fiscal 2028 | **182,564** |
| Fiscal 2029 | **198,010** |
| Fiscal 2030–2034 | **1,138,908** |
| **Expected Contributions** | |
| Fiscal 2025 | **$ 137,519** |

## 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, 2024, 2023 and 2022 for the association amounted to $14,581,793, $14,218,426 and $9,612,002. During 2024 $2,610,411 of new loans were made, and repayments totaled $7,444,875. In the opinion of management, no such loans outstanding at December 31, 2024, 2023 and 2022 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 $1,462,118, $2,410,272 and $2,306,998 in 2024, 2023 and 2022, respectively. The decrease in 2024 is primarily due to the reduction in the FCSIC premiums for 2024.

The association received patronage payments from the bank totaling $4,822,023, $4,417,418 and $8,324,710 during 2024, 2023 and 2022, 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 and liabilities measured at fair value on a recurring basis at December 31, 2024, 2023 and 2022 for each of the fair value hierarchy values are summarized below:

| **December 31, 2024** | **Fair Value Measurement Using** | | | **Total Fair** |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Value** |
| Assets held in nonqualified benefit trusts | **$ 97,650** | **$ -** | **$ -** | **$ 97,650** |

| December 31, 2023 | **Fair Value Measurement Using** | | | **Total Fair** |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Value** |
| Assets held in nonqualified benefit trusts | $ 68,101 | $ - | $ - | $ 68,101 |

| December 31, 2022 | **Fair Value Measurement Using** | | | **Total Fair** |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Value** |
| Assets held in nonqualified benefit trusts | $ 35,326 | $ - | $ - | $ 35,326 |

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

| **December 31, 2024** | **Fair Value Measurement Using** | | | **Total Fair** |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Value** |
| Assets: | | | | |
| Loans | **$ -** | **$ -** | **$ 40,382** | **$ 40,382** |
| Other property owned | **-** | **-** | **193,021** | **193,021** |

| December 31, 2023 | **Fair Value Measurement Using** | | | **Total Fair** |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Value** |
| Assets: | | | | |
| Loans | $ - | $ - | $ 688,715 | $ 688,715 |
| Other property owned | - | - | - | - |

| December 31, 2022 | **Fair Value Measurement Using** | | | **Total Fair** |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Value** |
| Assets: | | | | |
| Loans | $ - | $ - | $ 56,611 | $ 56,611 |
| Other property owned | - | - | - | - |

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

| | **December 31, 2024** | | | | |
|---|---|---|---|---|---|
| | **Fair Value Measurement Using** | | | | |
| | **Total Carrying Amount** | **Level 1** | **Level 2** | **Level 3** | **Total Fair Value** |
| Assets: | | | | | |
| Cash | **$ 22,321** | **$ 22,321** | **$ -** | **$ -** | **$ 22,321** |
| Mission-related and other investments held to maturity | **813,931** | **-** | **-** | **820,072** | **820,072** |
| Net loans | **1,568,410,769** | **-** | **-** | **1,499,809,425** | **1,499,809,425** |
| Total Assets | **$1,569,247,021** | **$ 22,321** | **$ -** | **$1,500,629,497** | **$1,500,651,818** |
| Liabilities: | | | | | |
| Guaranteed obilgations to government entities | **$ 13,673,714** | **$ -** | **$ -** | **$ 13,076,940** | **$ 13,076,940** |
| Note payable to Farm Credit Bank of Texas | **1,373,990,419** | **-** | **-** | **1,314,024,100** | **1,314,024,100** |
| Total Liabilities | **$1,387,664,133** | **$ -** | **$ -** | **$1,327,101,040** | **$1,327,101,040** |

| | December 31, 2023 | | | | |
|---|---|---|---|---|---|
| | Fair Value Measurement Using | | | | |
| | Total Carrying Amount | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Assets: | | | | | |
| Cash | $ 34,525 | $ 34,525 | $ - | $ - | $ 34,525 |
| Mission-related and other investments held to maturity | 912,946 | - | - | 896,331 | 896,331 |
| Net loans | 1,452,921,094 | - | - | 1,370,950,671 | 1,370,950,671 |
| Total Assets | $ 1,453,868,565 | $ 34,525 | $ - | $ 1,371,847,002 | $ 1,371,881,527 |
| Liabilities: | | | | | |
| Guaranteed obilgations to government entities | $ 12,090,628 | $ - | $ - | $ 11,410,365 | $ 11,410,365 |
| Note payable to Farm Credit Bank of Texas | 1,262,595,133 | - | - | 1,191,556,858 | 1,191,556,858 |
| Total Liabilities | $ 1,274,685,761 | $ - | $ - | $ 1,202,967,223 | $ 1,202,967,223 |

| | December 31, 2022 | | | | |
|---|---|---|---|---|---|
| | Fair Value Measurement Using | | | | |
| | Total Carrying Amount | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Assets: | | | | | |
| Cash | $ 28,460 | $ 28,460 | $ - | $ - | $ 28,460 |
| Mission-related and other investments held to maturity | 1,224,024 | - | - | 1,183,024 | 1,183,024 |
| Net loans | 1,375,610,065 | - | - | 1,259,135,174 | 1,259,135,174 |
| Total Assets | $ 1,376,862,549 | $ 28,460 | $ - | $ 1,260,318,198 | $ 1,260,346,658 |
| Liabilities: | | | | | |
| Guaranteed obilgations to government entities | $ 12,531,490 | $ - | $ - | $ 11,471,735 | $ 11,471,735 |
| Note payable to Farm Credit Bank of Texas | 1,186,601,640 | - | - | 1,086,253,908 | 1,086,253,908 |
| Total Liabilities | $ 1,199,133,130 | $ - | $ - | $ 1,097,725,643 | $ 1,097,725,643 |

*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.

*Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements*

About nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System 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.

Information about Other Financial Instrument Fair Value Measurements:

| | Valuation Technique(s) | Input |
|---|---|---|
| Cash | Carrying value | Par/principal and appropriate interest yield |
| Mission-related and other investments held to maturity | Discounted cash flow | Prepayment rates<br>Probability of default<br>Loss severity |
| Loans | Discounted cash flow | Prepayment forecasts<br>Probability of default<br>Loss severity |
| Note payable to bank | Discounted cash flow | Benchmark yield curve<br>Derived yield spread<br>Own credit risk |
| Guaranteed obligations to government entities | Carrying value | Prepayment rates<br>Probability of default<br>Loss severity |

**Valuation Techniques**

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

*Investments*

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

*Assets Held in Nonqualified Benefits Trusts*

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

*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, 2024, $129,029,421 of commitments and $200,805 of commercial letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the 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 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

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

| | 2024 | | | | |
|---|---|---|---|---|---|
| | **First** | **Second** | **Third** | **Fourth** | **Total** |
| **Net interest income** | **$ 9,302** | **$ 9,418** | **$ 9,536** | **$ 9,632** | **$ 37,888** |
| **(Provision for) reversal of credit losses** | **(49)** | **(34)** | **(178)** | **(205)** | **(466)** |
| **Noninterest income (expense), net** | **(2,745)** | **(2,280)** | **(2,909)** | **(5,785)** | **(13,719)** |
| **Net income** | **$ 6,508** | **$ 7,104** | **$ 6,449** | **$ 3,642** | **$ 23,703** |

| | 2023 | | | | |
|---|---|---|---|---|---|
| | First | Second | Third | Fourth | Total |
| Net interest income | $ 8,752 | $ 8,805 | $ 9,031 | $ 9,111 | $ 35,699 |
| (Provision for) reversal of credit losses | (229) | (150) | (158) | (248) | (785) |
| Noninterest income (expense), net | (2,067) | (2,099) | (2,742) | (7,248) | (14,156) |
| Net income | $ 6,456 | $ 6,556 | $ 6,131 | $ 1,615 | $ 20,758 |

| | 2022 | | | | |
|---|---|---|---|---|---|
| | First | Second | Third | Fourth | Total |
| Net interest income | $ 7,850 | $ 8,051 | $ 8,191 | $ 8,493 | $ 32,585 |
| (Provision for) reversal of credit losses | (32) | 24 | (91) | (6) | (105) |
| Noninterest income (expense), net | (1,896) | (1,821) | (1,713) | (3,122) | (8,552) |
| Net income | $ 5,922 | $ 6,254 | $ 6,387 | $ 5,365 | $ 23,928 |

The decrease in net income in the last quarter of 2023 is due to the bank's reduction in direct note patronage for the current year. The association records patronage refunds on an accrual basis. A portion of the accrued direct note patronage was reversed in quarter four upon notification from the bank of the anticipated reduction in direct note patronage.

## NOTE 17— SUBSEQUENT EVENTS:

The association has evaluated subsequent events through March 7, 2025, 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

Southern AgCredit, ACA (association) serves its 50-county territory in the state of Mississippi and its 11-parish territory in the state of Louisiana through its main administrative and lending office at 306 Commerce Center Drive, Ridgeland, Mississippi 39157. Construction of this administrative and Ridgeland branch office was completed in March 2023. Additionally, there are ten branch lending offices located throughout the territory. The association owns the Mississippi office buildings in Brookhaven, Gulfport, Greenville, Greenwood, Hattiesburg, Newton and Ridgeland, and Louisiana office buildings in Ruston and Shreveport free of debt. The association leases a Mississippi office building in Meridian. A lot was purchased in late 2022 to construct a new office building to house the Brookhaven branch. Plans were finalized in late 2023 with construction completed in October 2024. A Brookhaven office building was leased through October 2024.

### 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 (bank), as discussed in Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report. The financial condition and results of operations of the bank may materially affect the stockholders' investment in the association.

The annual and quarterly stockholder reports of the Farm Credit Bank of Texas (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 e-mailing *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 Southern AgCredit, ACA, 306 Commerce Center Drive, Ridgeland, MS 39157 or calling (601) 499-2820. Copies of the association's quarterly stockholder reports can also be requested by e-mailing *dlsouthernagcreditadmin@farmcreditbank.com*. The association's annual stockholder report is available on its website at *www.southernagcredit.com* 75 days after the fiscal year end. Copies of the association's annual stockholder report can also be requested 90 days after the fiscal year end.

## SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2024, 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 |
|---|---|---|---|
| Bryan "Scott" Bell | Chairman | 2012 | 2027 |
| Lonnie "Gene" Boykin | Vice Chairman | 2014 | 2026 |
| Reggie Allen | Director | 2013 | 2026 |
| Steven "Steve" Dockens, CPA | Director (Director-Elected) | 2019 | 2025 |
| Loyd Dodson | Director | 2023 | 2026 |
| Charles "Allen" Eubanks | Director | 2013 | 2027 |
| Jonathan Hollingshead | Director (Director-Elected) | 2023 | 2026 |
| John "Paul" Johns, Jr. | Director | 2022 | 2025 |
| Larry W. Killebrew | Director | 2010 | 2025 |
| Kevin Rhodes | Director | 1998 | 2025 |
| Phillip D. Morgan, CPA | Chief Executive Officer | 2008 | - |
| Ted R. Murkerson | Chief Strategy Officer | 2008 | - |
| Brent Barry | Chief Credit Officer | 2003 | - |
| Britny B. Hester, CPA | Chief Financial Officer | 2013 | - |
| Amanda R. Hudson | Chief Information Officer | 2006 | - |
| Ken D. Hobart | Chief Collateral Risk Officer | 1989 | - |
| Jeffrey M. Williams | Vice President General Counsel | 2021 | - |
| L. Paul Landry, II | Vice President of Risk & Compliance | 2011 | - |
| Clayton Davis | Vice President of Operations | 2006 | - |
| James G. Nicholas | Market President | 2011 | - |
| Justin C. Morris | Regional President | 2011 | - |
| Elliott Fancher | Regional Vice President/Branch Manager | 2006 | - |

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

**Bryan "Scott" Bell of Lena, Mississippi**, is the owner/operator of Bell Livestock, Inc., and serves on the board of directors of Bell Farms, Inc. Both corporations are cattle, poultry and row crop operations in Scott and Leake counties, Mississippi. He is a contract grower with Koch Foods of Mississippi and has been in farming for over 25 years. He farms with his father and brother, who are also stockholders of Southern AgCredit along with their spouses, and he grazes cattle with other association stockholders. Mr. Bell serves on the Farm Credit Council, Tenth District Stockholder's Advisory Committee, Farm Credit Bank of Texas' Tenth District Farm Credit Council, Farm Credit Council Services Board of Directors and is also an alderman for the town of Lena, Mississippi. He graduated from Mississippi State University with a degree in poultry science. Mr. Bell is a member of First Baptist Church of Carthage, Mississippi, where he currently serves on various committees. He is married with two children.

**Lonnie "Gene" Boykin of Rolling Fork, Mississippi**, farms soybeans, corn, timber and wildlife in Issaquena and Sharkey counties as a partner in B&R Farms with his wife, son and daughter-in-law who are also stockholders. He owns an interest in Peckerwood Farms, Big Slough Hunting Club, B&R Farms and B&G Farms. He serves on the board of trustees of Sharkey-Issaquena Community Hospital. He is a deacon at the First Baptist Church of Rolling Fork. He is married with two children and seven grandchildren. He is a graduate of Delta State University with a degree in business administration.

**Reggie Allen of Brookhaven, Mississippi**, owns 500 acres in Lincoln County consisting of 400 acres of timber and 100 acres of open pastureland for beef cattle. He also owns an interest in Allen Properties, LLC, which manages commercial and residential rental properties in the Brookhaven area. Mr. Allen majored in business and accounting at Co-Lin Junior College and the University of Southern Mississippi. He is married with two children and six grandchildren. His daughter and her spouse are also stockholders of the association. He is a member of Jackson Street Methodist Church, where he and his wife have served on various committees.

**Steven "Steve" Dockens of Ocean Springs, Mississippi**, is a certified public accountant who has worked in public accounting for 40 years. Mr. Dockens has been employed with the accounting firm of Alexander, Van Loon, Sloan, Levens & Favre in Gulfport, Mississippi, since 2001 and is currently quality control director. He led a team of auditors in 2005 to complete the initial Sarbanes-Oxley documentation for the Farm Credit Bank of Texas. Subsequent to that time, and until Mr. Dockens was appointed to the board of directors for Southern AgCredit, he worked with several Farm Credit Bank of Texas associations. He is an active member of professional organizations such as the American Institute of Certified Public Accountants and the Mississippi Society of Certified Public Accountants. He graduated from the University of South Alabama with a bachelor's degree in business administration with an emphasis in accounting. Mr. Dockens is the treasurer and a board member for Samaritan Ministry of Jackson County, a local food pantry. He is an active member, past president, past secretary and current treasurer of the Gulfport Kiwanis Club. He is also an elder in the Community of Christ in Ocean Springs, Mississippi.

**Loyd Dodson of Haughton, Louisiana**, is the owner and operator of Dodson Ranch, a cow-calf and hay operation that has been in his family since 1872. Additionally, Mr. Dodson is the co-owner of a commercial rental property company and storage facility. Mr. Dodson serves on the board of directors for Bayou Pierre Water Board, Haughton Metropolitan Planning Commission and the Louisiana Beef Industry Council where he is treasurer. He is the District 1 Representative for the Louisiana Farm Bureau Federation. Mr. Dodson is married and has one daughter.

**Charles "Allen" Eubanks of Lucedale, Mississippi**, is the owner/operator, along with his wife, Janice, of Eubanks Produce, Inc., Melon Acres, LLC, Eubanks Land Company, LLC, Double AJ Packers, LLC, Charlie's U-Pik, LLC and Eubanks Family Ranch. He started Eubanks Produce, Inc. in 1992 upon graduation from Mississippi State University, where he majored in agribusiness. He is on the board of directors of George County Co-op and the Gulf Coast Watermelon Association. He is married with four children and three grandchildren. He is an active member of Watermark Congregational Methodist Church in Lucedale.

**Jonathan Hollingshead of Madison, Mississippi**, is the chief executive officer and owner of Business Communications, Inc. ("BCI") which was founded in 1993. BCI has been voted #1 Best Place to Work in Mississippi, #1 IT Company in Mississippi, one of the top 100 IT security companies in the U.S., one of the top 150 managed service providers in the U.S. and Fortinet's Partner of the Year. Mr. Hollingshead has served on several advisory boards for technology companies across the country and has consulted for at least one hedge fund on the technology and security sectors. He obtained a bachelor of science degree from Mississippi State University with a double major in math and computer science and thereafter obtained his master of business administration degree from Mississippi College. He is married and has three children.

**John "Paul" Johns, Jr. of Jonesboro, Louisiana,** is the current operator of 500 acres of hay, timber and pastureland, 100 commercial cows and four poultry houses. Mr. Johns retired after 32 years with Liberty Mutual Insurance where he worked in risk analysis, loss prevention and defense litigation management. Prior to his insurance career, he was a 4-H County Agent for eight years. Mr. Johns graduated from Louisiana Tech University with a bachelor's degree in animal science and a master's degree in applied botany. Mr. Johns is a deacon at Sweetwater Baptist Church in Quitman. He is a member of the Society of Claim Law Associates, Louisiana Cattleman's Association and Mississippi Cattleman's Association. He is a board member for Jackson Parish Farm Bureau, a member of the Board of Supervisors for the Dugdemona Soil and Water District and Chairman of Farm Bureau Poultry Advisory Committee. Additionally, Mr. Johns participates in the Louisiana Master Farmer Program. Mr. Johns is married and has two children and four grandchildren.

**Larry W. Killebrew of Lexington, Mississippi**, is the owner/manager of Larry Killebrew Farms, a 3,000-acre farming operation consisting of row crops — cotton, corn and soybeans — and cattle. He and his wife have been farming for 51 years and have a son and other relatives who are also association stockholders. He serves as a director for Holmes County Gin and is a board member of Black Creek Drainage District. He is a member of Farmers Grain Terminal, Holmes County Soil and Water Conservation District, and the Holmes County Farm Bureau. He is a deacon at Oregon Memorial Church in Lexington, Mississippi.

**Kevin Rhodes of Pelahatchie, Mississippi**, owns KDR Farms, Inc., a 250-acre farming operation consisting of a small beef cattle operation and two six-house poultry farms in Rankin County. He is a contract grower with Koch Foods of Mississippi and has been in the poultry business for over 40 years. He graduated from Mississippi State University with a degree in agricultural business. He is married and his brothers and a son and their spouses are all stockholders of Southern AgCredit. Mr. Rhodes serves on the Tenth District Nominating Committee and previously served on the Farm Credit Bank of Texas' Stockholder's Advisory Committee and on the Tenth District Farm Credit Council. He serves as a director on the Rankin County Farm Bureau, Mississippi Poultry Association and is president of the ACL Water Association. He is a life-long member of Church at Shiloh.

**Phillip D. Morgan, CPA, Chief Executive Officer, of Flora, Mississippi,** joined the association in September 2008. He is a graduate of the University of Southern Mississippi with a bachelor of science degree in business administration and a master's degree in professional accountancy. Mr. Morgan began his career in public accounting providing audit and consulting services to commercial and primarily Farm Credit System institutions throughout the U.S. Mr. Morgan is a certified public accountant and member of numerous professional organizations, including state and national public accounting and information technology societies. He is also a stockholder and board member of three recreational land management organizations in which stockholders of the association may also have ownership. He is also a board member of his neighborhood homeowners' association in which other members may be stockholders of Southern AgCredit. Mr. Morgan is a native of Mt. Olive, Mississippi, where his family continues their cattle operation. He and his family are members of First Baptist Church of Flora, Mississippi.

**Ted R. Murkerson, Chief Strategy Officer, of Jackson, Mississippi,** began his Farm Credit career in 1992 working for Northwest Florida Farm Credit and later joined Southwest Georgia Farm Credit, both within the AgFirst District. He was formerly employed as a relationship manager at the Farm Credit Bank of Texas. He has served on several steering committees for FCC Services designed to aid in the advancement of new and existing employees. Mr. Murkerson joined the association in June 2008 as the chief credit officer until moving into this new role in July 2024. He graduated from Troy State University with bachelor's and master's degrees in business administration. He is a native of Bainbridge, Georgia, and continues to be active in the family farm operation.

**Brent Barry, Chief Credit Officer, of Flora, Mississippi**, is a 2002 graduate of Mississippi State University with a degree in forest management. He has been with Farm Credit since May 2003 where he began his career as a loan officer. Mr. Barry currently serves as an active member of the Farm Credit Chief Credit Officer Workgroup. He and his wife have three children.

**Britny B. Hester, CPA, Chief Financial Officer, of Jackson, Mississippi,** joined the association in April 2013. She is a graduate of Mississippi College with a bachelor of science degree in business administration. She was previously in public accounting, providing auditing and consulting services primarily to Farm Credit System institutions. She is married with two children. She and her family are members of Fondren Church in Jackson, Mississippi.

**Amanda R. Hudson, Chief Information Officer, of Madison, Mississippi**, joined the association in December 2006. She graduated from Mississippi State University with a bachelor's degree in food science and industry and a master's degree in agribusiness management. She has served on the Steering Committee for FCC Services Forum for Ag Lending Conference and graduated from the inaugural class of the MSU Extension Thad Cochran Agricultural Leadership Program.

**Ken D. Hobart, Chief Collateral Risk Officer, of Hollandale, Mississippi**, began working for Farm Credit in 1985 and this association in 1989. He is a graduate of Mississippi State University with a bachelor's degree in ag economics. He is a state certified general real estate appraiser, licensed in Mississippi, Louisiana and Arkansas and a member of the American Society of Farm Managers and Rural Appraisers. He is married and a member of First Baptist Church in Greenville, Mississippi. His father is a stockholder of the association.

**Jeffrey M. Williams, Vice President General Counsel, of Pearl, Mississippi**, attended Mississippi State University from 1988 until 1990. At Mississippi State, he was an active member of Pi Kappa Alpha Fraternity and the University Alumni Delegates. In 1990, he was nominated and accepted into the United States Air Force Academy in Colorado Springs, Colorado. He graduated and was commissioned as a second lieutenant in the United States Air Force in 1994 and served in the active-duty Air Force from 1994 until 1998 as an intelligence officer in the Air Force Special Operations Command. From 1998 to 2001, he worked in the same capacity as a member of the United States Air Force Reserves. In 2001, Mr. Williams joined the Mississippi Air National Guard, where he has attained the rank of lieutenant colonel and continues his service. During his time in the United States Air Force, he completed Air War College, Air Command and Staff College and Squadron Officer School. In 1998, he also enrolled in the University of Mississippi School of Law, and in 2001, he received his juris doctorate degree, cum laude. Upon graduation from law school, he was admitted to the Mississippi Bar and began working as a law clerk for Federal District Court Judge Charles W. Pickering, Sr. He served in this capacity until 2003, at which time he joined Wells, Moore, Simmons & Hubbard where he worked until the firm dissolved in 2011. He then started the law firm of Hubbard, Mitchell, Williams & Strain, PLLC, which he remained a member of until accepting the general counsel position at Southern AgCredit. He is a former member of the board of the Mustard Seed, a non-profit, located in Rankin County, Mississippi. He is also a current member of American Legion Post 1776, located in Cleveland, Mississippi, which is a charitable gaming organization. He is married and has two sons.

**L. Paul Landry, II, Vice President of Risk & Compliance, of Flowood, Mississippi**, joined the association in September 2011. Within this role, he is also the Audit Coordinator on behalf of the Audit Committee. He was previously in public accounting, providing consulting services primarily to Farm Credit System institutions. He is a graduate of the University of Louisiana at Monroe with a bachelor's degree in criminal justice and Mississippi College with a B.S.B.A. in accounting. He earned the Certified Regulatory Compliance Manager (CRCM) designation in 2023 and Certified Enterprise Risk Professional (CERP) designation in 2024. He is a native of West Monroe, Louisiana, where he and his family own 80 acres of pine timber. He resides in Brandon, Mississippi, with his wife and two children.

**Clayton Davis, Vice President of Operations, of Greenville, Mississippi**, began his Farm Credit career with the association in January 2006. He is a graduate of Mississippi State University with a bachelor's degree in business administration. He has previously served as a board member of First Presbyterian Preschool, on the finance committee of First Baptist Church of Greenville and as a presidential director of Delta Council. His father, uncles and brothers are row crop farmers in the area and are stockholders of the association. He and his wife have three children and reside in Avon, Mississippi, where they own a small farm. They are members of First Baptist Church of Greenville and are prior stockholders of the association.

**James G. Nicholas, Market President, of Jackson, Mississippi**, began his Farm Credit career as an intern with Mississippi Land Bank while at Mississippi State University. He was hired in 2011 as a loan officer and now is the market president for the Mississippi branches with over 14 years of experience in the Farm Credit System. He is a graduate of Mississippi State University with a bachelor's degree in real estate and finance. He is a board member of the MS River Landowners Alliance and is very active in the central Mississippi community. He and his wife have three young children and reside in Jackson, Mississippi, where they are members of First Presbyterian Church. His father, brother, and uncles are association stockholders.

**Justin C. Morris, M.S., Regional President, of Shreveport, Louisiana,** began his Farm Credit career working for the Farm Credit Administration as a bank examiner. In 2011, he joined Southern AgCredit, ACA. This is his 17th year in the Farm Credit System and 14th year at Southern AgCredit, ACA. He has a bachelor of science degree from Southern Arkansas University and a master of science degree from the University of Arkansas. He is a member of numerous organizations including Farm Bureau, Ducks Unlimited, National Wild Turkey Federation, the Louisiana Cattlemen's Association, the Louisiana Cotton and Grain Association, and the Shreveport Club, and in 2024 he served on the board of directors for the Louisiana Council of Farmer Cooperatives, Caddo Parish 4-H Foundation and the Cypress Bayou Corporation. He and his family reside in Benton, Louisiana.

**Elliott Fancher, Regional Vice President, of Greenwood, Mississippi**, began his Farm Credit career in September of 2006. He is a graduate of Mississippi State University with a bachelor's degree in animal science with a minor in agricultural business. He is a member of several organizations, including the Mississippi Cattlemen's Association, National Wild Turkey Federation, Ducks Unlimited, Greenwood Chamber of Commerce and Delta Council. He currently serves on the board of directors for Leflore County Farm Bureau and Winona Christian School. He is an active deacon at Duck Hill Baptist Church where he also serves as chairman of the Childrens Committee, Security Team and Stewardship Committee. He and his wife have two children. His parents are stockholders of the association.

## COMPENSATION OF DIRECTORS

Directors were compensated for their service to the association in the form of an honorarium at the rate of $2,100 per month, the board chairman at the rate of $3,000 per month, and the Audit Committee chairman at the rate of $3,100 per month. In addition, directors were compensated for their service to the association in the form of an honorarium at the rate of $250 per day for director meetings and committee meetings, and a rate of $250 if committee meetings were the same day as scheduled board meetings. Directors were also reimbursed for certain expenses incurred while representing the association in an official capacity. Mileage for attending official meetings during 2024 was paid at the IRS-approved rate of .67 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 2024** |
| Reggie Allen | 6 | 8 | $ 28,700 |
| Bryan "Scott" Bell | 7 | 40 | $ 47,450 |
| Lonnie "Gene" Boykin | 7 | 34 | $ 35,450 |
| Steven "Steve" Dockens, CPA | 7 | 20 | $ 43,950 |
| Loyd Dodson | 6 | 8 | $ 28,700 |
| Charles "Allen" Eubanks | 6 | 5 | $ 27,950 |
| Jonathan Hollingshead | 7 | 13 | $ 30,200 |
| John "Paul" Johns, Jr. | 7 | 12 | $ 29,950 |
| Larry W. Killebrew | 6 | 13 | $ 29,950 |
| Kevin Rhodes | 7 | 21 | $ 31,950 |
| | | | $ 334,250 |

The aggregate compensation paid to directors in 2024, 2023 and 2022 was $334,250, $312,750 and $339,250, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows for 2024:

| | Committee | | | |
|---|---|---|---|---|
| **Director** | **Audit** | **Compensation** | **Governance** | **Other Meetings and Committees, if Any** |
| Reggie Allen | $500 | $500 | $0 | $1,000 |
| Bryan "Scott" Bell | $1,750 | $1,000 | $1,750 | $4,000 |
| Lonnie "Gene" Boykin | $1,750 | $750 | $1,750 | $4,250 |
| Steven "Steve" Dockens, CPA | $1,750 | $0 | $0 | $3,250 |
| Loyd Dodson | $0 | $0 | $1,500 | $500 |
| Charles "Allen" Eubanks | $0 | $750 | $0 | $500 |
| Jonathan Hollingshead | $1,500 | $0 | $250 | $1,500 |
| John "Paul" Johns, Jr. | $0 | $0 | $1,750 | $1,250 |
| Larry W. Killebrew | $0 | $1,000 | $0 | $2,250 |
| Kevin Rhodes | $1,750 | $0 | $1,000 | $2,250 |
| | $ 9,000 | $ 4,000 | $ 8,000 | $ 20,750 |

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $42,781, $57,111 and $45,221 in 2024, 2023 and 2022, respectively.

## COMPENSATION OF SENIOR OFFICERS

### Compensation Discussion and Analysis – Senior Officers

### Overview

The association strives to be a progressive employer and desires to attract and retain superior employees to provide quality service at a profit for the benefit of all stockholders. The board of directors believes market-based salaries coupled with pay for performance or incentive compensation programs are critical to the success of the association and are comparable with and promote the institution's goals and business strategies, and its chartered mission within the Farm Credit System. It is the desire of the board to provide a comprehensive plan that rewards profitability while ensuring the safety and soundness of the institution over a long period of time. Annually, the Compensation Committee and board obtain market data for similar financial institutions and approve the salary plan for all employees. This includes establishing salary ranges based on each employee's level of responsibility and job description. Base salaries for all employees, including the CEO and senior officers, are determined based upon position, performance and market compensation data.

### Chief Executive Officer (CEO) Compensation Policy

Compensation for the CEO and other senior officers includes a base salary and participation in the association's Performance Sharing Plan (PSP). The CEO and senior officers of the association also participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan ("the Plan"). The Plan is a defined contribution plan and is sponsored and maintained by the AgFirst/FCBT Plan Sponsor Committee for the benefit of the participating employers in the AgFirst Farm Credit Bank/Farm Credit Bank of Texas Agreement Regarding Employee Benefit Plans (the "Administrative Agreement") and their eligible employees. One of the purposes of the Plan is to allow a means for participating employers to restore benefits lost due to limitations under the Internal Revenue Code as it relates to the association's existing Pension Plan. The CEO does not participate in the defined benefit retirement plan described in Note 12 to the consolidated financial statements, "Employee Benefit Plans."

### Summary Compensation Table

The following table summarizes the compensation paid to the CEO and all senior officers of the association during 2024, 2023 and 2022. 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) | Change in Pension Value (d) | Other (e) | Total |
|---|---|---|---|---|---|---|
| Phillip D. Morgan, CPA, CEO | 2024 | $ **456,000** | $ **205,500** | $ **-** | $ **50,855** | $ **712,355** |
| | 2023 | 425,000 | 173,726 | - | 49,747 | 648,473 |
| | 2022 | 385,000 | 169,954 | - | 63,898 | 618,852 |
| 8 | 2024 | 1,616,227 | 742,230 | 101,135 | 236,571 | **2,696,163** |
| 8 | 2023 | 1,503,282 | 640,781 | 225,550 | 232,173 | 2,601,786 |
| 8 | 2022 | 1,421,968 | 606,997 | 332,648 | 261,763 | 2,623,376 |

(a) Aggregate number of senior officers/highly compensated individuals, excluding CEO.
(b) Gross salary, including retention plan compensation for certain senior officers.
(c) Performance sharing earned in the prior year and paid in the first 30 days of the following calendar year. Additionally included performance sharing earned in the current year and paid quarterly.
(d) Change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the prior fiscal year to the current fiscal year.
(e) Amounts in the "Other" column include contributions to supplemental 401(k) and defined contribution plan, allowance, automobile program, HSA contributions, and group life insurance provided by employer.

**Pension Benefits Table**

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to the CEO for the year ended December 31, 2024:

| Name | Plan Name | Number of Years Credited Service | Present Value of Accumulated Benefit | Payments During 2024 |
|---|---|---|---|---|
| Aggregate Number of Senior Officers & other highly compensated employees | | | | |
| 1 | Farm Credit Bank of Texas Pension Plan | 27.77 | $ 1,604,124 | $ - |

**Pension Benefits Table Narrative Disclosure**

One senior officer of the association participates in the Farm Credit Bank of Texas Pension Plan (the "Pension Plan"), which is a qualified defined benefit retirement plan. Compensation, as defined in the Pension Plan, includes wages, incentive compensation, and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits, and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 ("FAC60"). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times "Years of Benefit Service" and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation items and (ii) "Years of Benefit Service" (not to exceed 35). The present value of the senior officers' accumulated Pension Plan is calculated assuming retirement had occurred at the measurement date used for financial reporting purposes with the retirement at age 65. The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the senior officer is married on the date the annuity begins, that the spouse is exactly two years younger than the senior officer and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit.

**Other**

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 2024 at the IRS-approved rate of 67.0 cents per mile.

Neither the CEO nor any other senior officer received noncash compensation exceeding $5,000 in 2024, 2023 and 2022.

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

None of the association's officers or directors have been involved in legal proceedings that are material to an evaluation of the ability of any person who served as director or senior officer on January 1, 2024, or at any time during the last five years.

## RELATIONSHIP WITH INDEPENDENT AUDITOR

Audit fees related to the 2024 audit of the association's consolidated financial statements amounted to $120,000 compared to $116,000 for the 2023 audit. In 2024, $2,000 incurred was for nonaudit services.

## RELATIONSHIP WITH UNINCORPORATED BUSINESS ENTITIES

The association is the single owner of Parkway Place Investments, LLC and SAC Wawona Investments, LLC, which were organized for the purpose of holding and managing foreclosed property for which the assets, liabilities and results of operations have been consolidated in the association's financial statements.

## FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers dated March 7, 2025, and the report of management in this annual report to stockholders, are incorporated herein by reference.

## MEMBER/SHAREHOLDER PRIVACY

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

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

The association is committed to meeting the needs of young, beginning and small farmers and ranchers and producers or harvesters of aquatic products (YBS), and recognizes the need to support young, beginning and small operators to ensure a strong agricultural community for the future. Support of the YBS lending and non-lending activities is a priority in the association. We continue to spend additional employee time and other resources, combined with the most flexible manner possible of the association's underwriting standards, along with accessible state and federal enhancement tools to meet the credit needs of YBS farmers and ranchers. In addition, the association actively supports other programs, events, scholarships and educational activities that benefit young people who will become the agricultural providers of tomorrow.

The association sets minimum standards and monitors its YBS performance on a regular basis. These results are also compared to the demographics of the territory it serves as reflected in the USDA Census of Agriculture.

Definitions for "young," "beginning" and "small" farmers and ranchers used by the association are:

- Young: Age 35 or younger as of the loan date
- Beginning: 10 years or less of farming, ranching or aquatic experience as of the loan date
- Small: Less than $350,000 in annual gross sales of agricultural products

The 2022 USDA Census of Agriculture for the association territory indicates that 7.0 percent of farm operators are "young," 32.1 percent are "beginning" and 88.9 percent of the farms are "small." The association's 2025 goals for YBS lending are:

| | % YBS Volume Increase | % of Total Loans | % of Total Volume |
|---|---|---|---|
| **Young** | **2.50%** | **≥ 20%** | **≥ 15%** |
| **Beginning** | **2.50%** | **≥ 50%** | **≥ 45%** |
| **Small** | **2.50%** | **>75%** | **>55%** |

The following table summarizes information regarding loan counts and current commitment volume outstanding to young, beginning and small farmers and ranchers:

| | At December 31, 2024 | | | |
|---|---|---|---|---|
| (dollars in thousands) | **Loan Counts** | **Loan Volume** | **Percentage of Total Loan Counts** | **Percentage of Total Loan Volume** |
| Young only | 60 | 14,966 | 1.0% | 0.9% |
| Young & beginning | 181 | 74,117 | 3.0% | 4.7% |
| Young & small | 102 | 14,395 | 1.7% | 0.9% |
| Beginning only | 118 | 64,961 | 1.9% | 4.1% |
| Beginning & small | 2,380 | 489,010 | 39.1% | 31.0% |
| Small only | 1,276 | 273,977 | 20.9% | 17.3% |
| Young, beginning & small (YBS) | 1,221 | 191,467 | 20.0% | 12.1% |
| Non-YBS | 756 | 456,380 | 12.4% | 29.0% |
| Total | **6,094** | **1,579,273** | **100.0%** | **100.0%** |

The following table summarizes information regarding new loans to young, beginning and small farmers and ranchers:

| | At December 31, 2024 | | | |
|---|---|---|---|---|
| (dollars in thousands) | **Loan Counts** | **Loan Volume** | **Percentage of Total Loan Counts** | **Percentage of Total Loan Volume** |
| Young only | 6 | 1,503 | 0.1% | 0.1% |
| Young & beginning | 38 | 17,094 | 0.6% | 1.1% |
| Young & small | 22 | 5,348 | 0.4% | 0.3% |
| Beginning only | 9 | 4,641 | 0.1% | 0.3% |
| Beginning & small | 448 | 119,137 | 7.4% | 7.5% |
| Small only | 237 | 60,250 | 3.9% | 3.8% |
| Young, beginning & small (YBS) | 235 | 44,014 | 3.9% | 2.8% |
| Non-YBS | 161 | 121,174 | 2.6% | 7.7% |
| Total | **1,156** | **373,161** | **19.0%** | **23.6%** |

The association continues to provide credit to YBS farmers and ranchers at high levels as reflected by the above comparative data. Emphasis on this area of the association's lending business will continue to be a priority.

Southern AgCredit, ACA
306 Commerce Center Drive
Ridgeland, MS  39157

ADDRESS SERVICE REQUESTED

## Opt-In Today!

You can now opt-in to receive stockholder reports and information on customer events through emails and text messages from Southern AgCredit. Scan the QR code to fill out the communication preferences form and e-consent. We're always looking for ways to keep in touch in order to better serve our customer-owners more efficiently.

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