



# SOUTHERN AGCREDIT

*Financial Solutions for Agriculture*

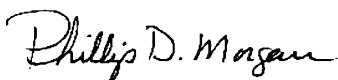
**Stockholders' Quarterly Financial Report**  
**For the Quarter Ended March 31, 2024**

## 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 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.

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



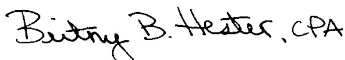
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Phillip D. Morgan, CPA  
Chief Executive Officer  
May 10, 2024



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Bryan "Scott" Bell  
Chairman, Board of Directors  
May 10, 2024



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Britny B. Hester, CPA  
Chief Financial Officer  
May 10, 2024

## **SOUTHERN AGCREDIT, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following commentary reviews the financial performance of the Southern AgCredit, ACA (Agricultural Credit association), referred to as the association, for the quarter ended March 31, 2024. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2023 Annual Report to Stockholders.

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

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

### **Significant Events:**

In December 2023, the association's board of directors declared a record patronage in the amount of \$20,405,551 to stockholders, including \$12,424,484 to be paid in cash, and \$7,981,067 in the form of non-qualified allocated equities on behalf of the individual stockholders and retained by the association. Non-qualified allocated equities are not taxable to the stockholder. The cash patronage was disbursed to the association stockholders in February 2024. The 2023 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 rates.

To improve the association's operating efficiency and customer service capacity, a lot was purchased in December 2022 for a new office building to house the Brookhaven branch, and construction planning commenced in February 2024 with completion anticipated in early 2025. The board and management of the association believe that construction of a new Brookhaven building will improve upon the association's continuing commitment to provide its borrowers with the highest quality of customer service.

The association continues 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.

### **Loan Portfolio:**

Total loans outstanding at March 31, 2024, including nonaccrual loans and sales contracts, were \$1,482,748,503 compared to \$1,456,897,097 at December 31, 2023, reflecting an increase of 1.77 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.09 percent at March 31, 2024 and 0.08 percent at December 31, 2023.

The association recorded no recoveries or charge-offs for the quarter ended March 31, 2024 and for the same period in 2023. The association's allowance for credit losses was 0.22 percent and 0.22 percent of total loans outstanding as of March 31, 2024 and December 31, 2023.

#### *Agribusiness Loan Program*

The association utilizes the Mississippi Development Authority's Agribusiness Enterprise Loan Program (ABE) to lower the cost of financing for its borrowers. The ABE loan program is designed to provide a percentage of low-cost state financing that is combined with private financial lending institutions' loan proceeds to encourage loans to the agribusiness industry in the state.

The association guarantees payment of the borrower's ABE loan to the Mississippi Development Authority (MDA) and, therefore, the amount of ABE loans outstanding and due to MDA is included in "Loans" on the consolidated balance sheet with an offsetting liability at "Guaranteed obligations to government entities." ABE loans totaled \$12,022,626 and \$12,090,628 as of March 31, 2024 and December 31, 2023, respectively.

**Risk Exposure:**

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

<b>Nonaccrual loans:</b>	<b>March 31, 2024</b>	December 31, 2023
Real estate mortgage	\$ 222,788	\$ 196,837
Agribusiness	1,075,660	996,239
Total nonaccrual loans	<u>1,298,448</u>	<u>1,193,076</u>
Total nonperforming assets	<u>\$ 1,298,448</u>	<u>\$ 1,193,076</u>

The balance of nonaccrual volume as of March 31, 2024 is primarily secured by real estate, receivables, crops and inventory with a total specific allowance of \$371,630 related to loans on two unrelated borrowers. The slight increase in nonaccrual volume since the prior year end is primarily due to the transfer of one loan to nonaccrual and activity related to the capital market loans that were transferred to nonaccrual in the prior year.

**Investments:**

During 2010, the association exchanged \$35,192,440 of mortgage loans that previously were covered under a long-term standby commitment to purchase agreement with Federal Agricultural Mortgage Corporation (Farmer Mac) for a Farmer Mac guaranteed agricultural mortgage-backed security. No gain or loss was recognized in the financial statements upon completion of the exchange transaction. The association continues to service the loans included in this transaction. These AMBS are included in the association's Consolidated Balance Sheet as held-to-maturity investments at an amortized cost balance of \$902,631 at March 31, 2024. The association continues to service the loans included in those transactions.

**Results of Operations:**

The association had net income of \$6,507,560 for the three months ended March 31, 2024, as compared to net income of \$6,454,889 for the same period in 2023, reflecting an increase of .84 percent. Net interest income was \$9,301,977 for the three months ended March 31, 2024, compared to \$8,752,225 for the same period in 2023, reflecting an increase of 6.28 percent.

**Net Interest Income Tables**

	<b>Three Months Ended</b>			
	<b>March 31, 2024</b>		<b>March 31, 2023</b>	
	<b>Average Balance</b>	<b>Interest</b>	<b>Average Balance</b>	<b>Interest</b>
Loans	\$ 1,470,408,650	\$ 21,287,373	\$ 1,380,621,104	\$ 17,754,148
Investments	907,795	14,423	1,214,140	17,267
Total interest-earning assets	<u>1,471,316,445</u>	<u>21,301,796</u>	<u>1,381,835,244</u>	<u>17,771,415</u>
Interest-bearing liabilities	<u>1,291,741,261</u>	<u>11,999,819</u>	<u>1,206,658,332</u>	<u>9,019,190</u>
Impact of capital	<u>\$ 179,575,184</u>		<u>\$ 175,176,912</u>	
Net interest income		<u>\$ 9,301,977</u>		<u>\$ 8,752,225</u>

	<b>2024</b>	<b>2023</b>
	<b>Average Yield</b>	<b>Average Yield</b>
Yield on loans	5.82%	5.22%
Yield on investments	6.39%	5.77%
Total yield on interest-earning assets	5.82%	5.22%
Cost of interest-bearing liabilities	3.74%	3.03%
Interest rate spread	2.08%	2.19%
Net interest income as a percentage of average earning assets	2.54%	2.57%

	<b>Three months ended:</b>		
	<b>March 31, 2024 vs. March 31, 2023</b>		
	<b>Increase (decrease) due to</b>		
	<b>Volume</b>	<b>Rate</b>	<b>Total</b>
Interest income - loans	\$ 1,164,275	\$ 2,368,950	\$ 3,533,225
Interest income - investments	(4,393)	1,549	(2,844)
Total interest income	1,159,882	2,370,499	3,530,381
Interest expense	641,256	2,339,373	2,980,629
<b>Net interest income</b>	<b>\$ 518,626</b>	<b>\$ 31,126</b>	<b>\$ 549,752</b>

Interest income for the three months ended March 31, 2024, increased by \$3,530,381, or 19.87 percent, from the same period of 2023, primarily due to increases in yields on earning assets and an increase in average loan volume. Interest expense for the three months ended March 31, 2024, increased by \$2,980,629, or 33.05 percent, from the same period of 2023 due to an increase in cost of funds. Average loan volume for the first quarter of 2024 was \$1,470,408,650, compared to \$1,380,621,104 in the first quarter of 2023. The average net interest rate spread on the loan portfolio for the first quarter of 2024 was 2.08 percent, compared to 2.19 percent in the first quarter of 2023.

The association's return on average assets for the three months ended March 31, 2024, was 1.71 percent compared to 1.82 percent for the same period in 2023. The association's return on average equity for the three months ended March 31, 2024, was 11.93 percent, compared to 12.41 percent for the same period in 2023.

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

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

	<b>March 31, 2024</b>	<b>December 31, 2023</b>
Note payable to the Bank	\$ 1,297,331,377	\$ 1,262,595,133
Accrued interest on note payable	4,195,604	3,947,505
Total	<b>\$ 1,301,526,981</b>	<b>\$ 1,266,542,638</b>

The association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2024. The primary source of liquidity and funding for the association is a direct loan from the Bank. The outstanding balance of \$1,297,331,377 as of March 31, 2024, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 3.62 percent at March 31, 2024. The indebtedness is collateralized by a pledge of substantially all the association's assets to the Bank and is governed by the GFA. The increase in note payable to the Bank and related accrued interest payable since December 31, 2023, is due to increased borrowing needs at the association. The association's own funds, which represent the amount of the association's loan portfolio funded by the Association's equity, were \$168,719,596 at March 31, 2024. The maximum amount the association may borrow from the Bank as of March 31, 2024, was \$1,483,296,011 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, which is September 30, 2024, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

#### **Capital Resources:**

The association's capital position increased by \$6,591,492 at March 31, 2024, compared to December 31, 2023. The association's debt as a percentage of members' equity was 5.93:1 as of March 31, 2024, compared to 6.02:1 as of December 31, 2023.

Farm Credit Administration regulations require the association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of March 31, 2024, the association exceeded all regulatory capital requirements.

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

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

**Relationship With the Farm Credit Bank of Texas:**

The association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2023 Annual Report of association more fully describe the association's relationship with the Bank.

The annual and quarterly stockholder reports of the Bank can be found at the Bank's website at [www.farmcreditbank.com](http://www.farmcreditbank.com). The annual and quarterly stockholder reports of the bank are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204.

The association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to association, 306 Commerce Center Drive, Ridgeland, MS 39157 or calling (601) 499-2820. The annual and quarterly stockholder reports for the association are also available on its website at [www.southernagcredit.com](http://www.southernagcredit.com). Copies of the association's quarterly stockholder reports can also be requested by e-mailing [dlsouthernagcreditadmin@farmcreditbank.com](mailto:dlsouthernagcreditadmin@farmcreditbank.com).

**SOUTHERN AGCREDIT, ACA**

**CONSOLIDATED BALANCE SHEETS**

	<b>March 31, 2024 (unaudited)</b>	<b>December 31, 2023</b>
<b><u>ASSETS</u></b>		
Cash	\$ 26,219	\$ 34,525
Investments	902,631	912,946
Loans	1,482,748,503	1,456,897,097
Less: allowance for credit losses on loans	3,341,396	3,287,288
Net loans	1,479,407,107	1,453,609,809
Accrued interest receivable		
Loans	16,062,690	14,506,485
Investments	29,587	25,252
Investment in and receivable from the Farm		
Credit Bank of Texas:		
Capital stock	25,395,763	25,395,763
Other	1,289,655	1,741,544
Premises and equipment, net	18,867,088	18,938,820
Other assets	1,552,097	827,773
Total assets	\$ 1,543,532,837	\$ 1,515,992,917
<b><u>LIABILITIES</u></b>		
Note payable to the Farm Credit Bank of Texas	\$ 1,297,331,377	\$ 1,262,595,133
Guaranteed obligations to government entities	12,022,626	12,090,628
Advance conditional payments	83,975	73,839
Accrued interest payable	4,195,604	3,947,505
Drafts outstanding	2,429,247	238,933
Dividends payable	-	12,424,484
Other liabilities	4,804,048	8,547,927
Total liabilities	\$ 1,320,866,877	\$ 1,299,918,449
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	5,479,715	5,387,155
Additional paid-in capital	10,238,891	10,238,891
Unallocated retained earnings	206,451,594	199,944,034
Accumulated other comprehensive income	495,760	504,388
Total members' equity	222,665,960	216,074,468
Total liabilities and members' equity	\$ 1,543,532,837	\$ 1,515,992,917

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

SOUTHERN AGCREDIT, ACA

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2024</b>	<b>2023</b>
<b><u>INTEREST INCOME</u></b>		
Loans	\$ 21,287,373	\$ 17,754,148
Investments	14,423	17,267
Total interest income	<u>21,301,796</u>	<u>17,771,415</u>
<b><u>INTEREST EXPENSE</u></b>		
Note payable to the Farm Credit Bank of Texas	11,999,827	9,011,258
Advance conditional payments	(8)	7,932
Total interest expense	<u>11,999,819</u>	<u>9,019,190</u>
Net interest income	<u>9,301,977</u>	<u>8,752,225</u>
<b><u>PROVISION FOR LOAN LOSSES</u></b>		
	<u>48,944</u>	<u>228,903</u>
Net interest income after provision for credit losses	<u>9,253,033</u>	<u>8,523,322</u>
<b><u>NONINTEREST INCOME</u></b>		
Income from the Farm Credit Bank of Texas:		
Patronage income	1,289,655	2,080,379
Loan fees	108,965	95,670
Financially related services income	7,586	9,129
Gain (loss) on other property owned, net	-	(336)
Gain (loss) on sale of premises and equipment, net	100	68,314
Other noninterest income	35,168	9,129
Total noninterest income	<u>1,441,474</u>	<u>2,262,285</u>
<b><u>NONINTEREST EXPENSES</u></b>		
Salaries and employee benefits	2,164,149	2,028,983
Occupancy and equipment	490,831	446,681
Insurance fund premiums	283,050	493,549
Other components of net periodic postretirement benefit cost	35,555	31,194
Other noninterest expense	<u>1,213,362</u>	<u>1,330,311</u>
Total noninterest expenses	<u>4,186,947</u>	<u>4,330,718</u>
Income before income taxes	<u>6,507,560</u>	<u>6,454,889</u>
<b>NET INCOME</b>	<u>6,507,560</u>	<u>6,454,889</u>
Other comprehensive income:		
Change in postretirement benefit plans	(8,628)	(10,341)
Other comprehensive income, net of tax	<u>(8,628)</u>	<u>(10,341)</u>
<b>COMPREHENSIVE INCOME</b>	<u>\$ 6,498,932</u>	<u>\$ 6,444,548</u>

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



SOUTHERN AGCREDIT, ACA

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

(unaudited)

	<u>Capital Stock/ Participation Certificates</u>	<u>Additional Paid-in-Capital</u>	<u>Retained Earnings Unallocated</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
Balance at December 31, 2022	\$ 5,228,975	\$ 10,238,891	\$ 192,737,743	\$ 588,359	\$ 208,793,968
Cumulative effect of change in accounting principle			(1,126,863)		(1,126,863)
Comprehensive income			6,454,889	(10,341)	6,444,548
Capital stock/participation certificates and allocated retained earnings issued	176,590				176,590
Capital stock/participation certificates and allocated retained earnings retired	(167,590)				(167,590)
<b>Balance at March 31, 2023</b>	<u>\$ 5,237,975</u>	<u>\$ 10,238,891</u>	<u>\$ 198,065,769</u>	<u>\$ 578,018</u>	<u>\$ 214,120,653</u>
Balance at December 31, 2023	\$ 5,387,155	\$ 10,238,891	\$ 199,944,034	\$ 504,388	\$ 216,074,468
Comprehensive income			6,507,560	(8,628)	6,498,932
Capital stock/participation certificates and allocated retained earnings issued	218,625				218,625
Capital stock/participation certificates and allocated retained earnings retired	(126,065)				(126,065)
<b>Balance at March 31, 2024</b>	<u>\$ 5,479,715</u>	<u>\$ 10,238,891</u>	<u>\$ 206,451,594</u>	<u>\$ 495,760</u>	<u>\$ 222,665,960</u>

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

**SOUTHERN AGCREDIT, ACA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
*(Unaudited)*

**NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:**

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, which was organized for the purpose of holding and managing foreclosed property for which the assets, liabilities and results of operation have been consolidated in the association’s financial statements. The association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2023, as contained in the 2023 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2023, as contained in the 2023 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2023. Descriptions of the significant accounting policies are included in the 2023 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

The consolidated financial statements comprise the operations of the ACA and its wholly owned subsidiaries. The preparation of these consolidated financial statements requires the use of management’s estimates. The results for the quarter ended March 31, 2024, are not necessarily indicative of the results to be expected for the year ended December 31, 2024. Certain amounts in the prior period’s financial statements have been reclassified to conform to current financial statement presentation.

**Recently 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.

In November 2023, the FASB issued ASU 2023-07 - Segment Reporting: Improvements to Reportable Segment Disclosures. The standard requires a public entity to disclose, on an annual and interim basis, the following:

- significant segment expenses that are readily provided to the chief operating decision maker (“CODM”) and included in segment profit or loss,
- composition and aggregate amount of other segment items, which represent the difference between profit or loss and segment revenues less significant segment expenses,
- the title and position of the CODM, and
- an explanation of how the CODM uses the reported segment measures in assessing segment performance and deciding how to allocate resources.

Even if a public entity has a single reportable segment, it is required to provide all disclosures set forth in the standard and all existing segment disclosures. The amendments in the standard are to be applied retrospectively to all prior periods presented and are effective for fiscal years beginning after December 31, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The association is currently assessing the potential impact of this standard on its disclosures.

**NOTE 2 — INVESTMENTS:**

The association may hold mission-related and other investments. The Farm Credit Administration approves mission-related programs and other mission-related 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:

March 31, 2024				
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
\$ 902,630	\$ -	\$ (8,116)	\$894,514	6.36%

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

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

A summary of loans follows:

Loan Type	March 31,	December 31,
	2024	2023
	Amount	Amount
Production agriculture:		
Real estate mortgage	\$ 1,218,461,330	\$ 1,189,002,826
Production and intermediate-term	138,315,165	140,177,725
Agribusiness:		
Loans to cooperatives	5,562,495	5,550,883
Processing and marketing	44,148,039	44,932,247
Farm-related business	9,348,497	9,384,518
Communication	20,996,714	22,212,656
Energy	19,269,292	19,466,890
Water and waste-water	9,826,918	9,883,358
Rural residential real estate	2,916,940	2,718,484
Agricultural export finance	13,903,113	13,567,510
<b>Total</b>	<b>\$ 1,482,748,503</b>	<b>\$ 1,456,897,097</b>

The association purchases or sells participation interests with other parties to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at March 31, 2024:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations	Participations	Participations	Participations	Participations	Participations
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$ 27,082,056	\$ 2,800,889	\$ 4,488,919	\$ -	\$ 31,570,975	\$ 2,800,889
Production and intermediate-term	19,258,649	38,049,984	-	-	19,258,649	38,049,984
Agribusiness	58,601,710	-	-	-	58,601,710	-
Communication	20,996,714	-	-	-	20,996,714	-
Energy	19,269,292	-	-	-	19,269,292	-
Water and waste-water	9,826,917	-	-	-	9,826,917	-
Agricultural export finance	13,903,113	-	-	-	13,903,113	-
<b>Total</b>	<b>\$168,938,451</b>	<b>\$ 40,850,873</b>	<b>\$ 4,488,919</b>	<b>\$ -</b>	<b>\$173,427,370</b>	<b>\$ 40,850,873</b>

The association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the association on such balances. Balances of ACPs were \$83,975 and \$73,839 at March 31, 2024, and December 31, 2023, respectively.

## Credit Quality

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

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

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

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

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

	<b>March 31, 2024</b>		December 31, 2023
Real estate mortgage			
Acceptable	<b>99.38</b>	%	99.43
OAEM	<b>0.39</b>		0.39
Substandard/doubtful	<b>0.23</b>		0.18
	<b>100.00</b>		100.00
Production and intermediate-term			
Acceptable	<b>99.17</b>		99.23
OAEM	<b>0.04</b>		0.05
Substandard/doubtful	<b>0.79</b>		0.72
	<b>100.00</b>		100.00
Loans to cooperatives			
Acceptable	<b>100.00</b>		100.00
OAEM	-		-
Substandard/doubtful	-		-
	<b>100.00</b>		100.00
Process and marketing			
Acceptable	<b>100.00</b>		100.00
OAEM	-		-
Substandard/doubtful	-		-
	<b>100.00</b>		100.00
Farm-related business			
Acceptable	<b>100.00</b>		100.00
OAEM	-		-
Substandard/doubtful	-		-
	<b>100.00</b>		100.00
Communication			
Acceptable	<b>97.29</b>		92.22
OAEM	<b>2.71</b>		7.78
Substandard/doubtful	-		-
	<b>100.00</b>		100.00
Energy			
Acceptable	<b>100.00</b>		100.00
OAEM	-		-
Substandard/doubtful	-		-
	<b>100.00</b>		100.00
Water and waste-water			
Acceptable	<b>100.00</b>		100.00
OAEM	-		-
Substandard/doubtful	-		-
	<b>100.00</b>		100.00
Rural residential real estate			
Acceptable	<b>100.0</b>		100.00
OAEM	-		-
Substandard/doubtful	-		-
	<b>100.0</b>		100.00
Agricultural export finance			
Acceptable	<b>100.00</b>		100.00
OAEM	-		-
Substandard/doubtful	-		-
	<b>100.00</b>		100.00
Total loans			
Acceptable	<b>99.37</b>		99.34
OAEM	<b>0.37</b>		0.44
Substandard/doubtful	<b>0.26</b>		0.22
	<b>100.00</b>	%	100.00

Accrued interest receivable on loans of \$16,092,690 and \$14,531,737 at March 31, 2024 and December 31, 2023, respectively, have been excluded from the amortized cost of loans and reported separately in the Balance Sheet. The association wrote off accrued interest receivable of \$0 during the three months ended March 31, 2024 and 2023.

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

<b>Nonaccrual loans:</b>	<u>March 31, 2024</u>	<u>December 31, 2023</u>
Real estate mortgage	\$ 222,787	\$ 196,837
Agribusiness	1,075,661	996,239
Total nonaccrual loans	<u>1,298,448</u>	<u>1,193,076</u>
Total nonperforming assets	<u>\$ 1,298,448</u>	<u>\$ 1,193,076</u>
Nonaccrual loans as a percentage of total loans	0.1%	0.1%
Nonperforming assets as a percentage of total loans and other property owned	0.1%	0.1%
Nonperforming assets as a percentage of capital	0.6%	0.6%

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:

	<u>March 31, 2024</u>			
	<u>Amortized Cost with Allowance</u>	<u>without Allowance</u>	<u>Total</u>	<u>Interest Income Recognized</u>
Nonaccrual loans:				
Real estate mortgage	\$ 59,065	\$ 163,722	\$ 222,787	\$ 804
Production and intermediate-term	993,235	82,426	1,075,661	-
Total nonaccrual loans	<u>\$ 1,052,300</u>	<u>\$ 246,148</u>	<u>\$ 1,298,448</u>	<u>\$ 804</u>

The following tables provide an age analysis of past due loans as of:

March 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	\$ 1,340,639	\$ 9,596	\$ 1,350,235	\$ 1,217,111,094	\$ 1,218,461,329
Production and intermediate term	141,373	993,188	1,134,561	137,180,605	138,315,166
Loans to cooperatives	-	-	-	5,562,495	5,562,495
Processing and marketing	-	-	-	44,148,039	44,148,039
Farm-related business	-	-	-	9,348,497	9,348,497
Communication	-	-	-	20,996,714	20,996,714
Energy	-	-	-	19,269,292	19,269,292
Water and waste-water	-	-	-	9,826,918	9,826,918
Rural residential real estate	-	-	-	2,916,940	2,916,940
Agricultural export finance	-	-	-	13,903,113	13,903,113
Total	<u>\$ 1,482,012</u>	<u>\$ 1,002,784</u>	<u>\$ 2,484,796</u>	<u>\$ 1,480,263,707</u>	<u>\$ 1,482,748,503</u>

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

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



## Allowance for Credit Losses

The credit risk rating methodology is a key component of the Institution'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 for each individual System Institution to manage credit exposure. The regulatory limit to a single borrower or lessee is 15 percent of the Institution's lending and leasing limit base but the System Institution's boards of directors have generally established more restrictive lending limits. This limit applies to associations with long-term and short- and intermediate-term lending authorities, and to the Banks' (other than CoBank) loan participations.

A summary of changes in the allowance for credit losses by portfolio segment are as follows:

	<b>Real Estate Mortgage</b>	<b>Production and Intermediate- Term</b>	<b>Agri-business</b>	<b>Communications</b>
<b>Allowance for Credit Losses:</b>				
Balance at December 31, 2023	\$ 2,659,690	\$ 458,153	\$ 107,361	\$ 35,825
Charge-offs	-	-	-	-
Recoveries	-	-	-	-
Provision for credit losses/(Credit loss reversal)	53,331	3,643	(1,129)	(2,954)
Balance at March 31, 2024	<u>\$ 2,713,021</u>	<u>\$ 461,796</u>	<u>\$ 106,232</u>	<u>\$ 32,871</u>
<b>Allowance for credit losses on unfunded commitments:</b>				
Balance at December 31, 2023	\$ 7,488	\$ 11,503	\$ 26,944	\$ -
Provision for unfunded commitments	(1,475)	(446)	(2,934)	-
Balance at March 31, 2024	<u>\$ 6,013</u>	<u>\$ 11,057</u>	<u>\$ 24,010</u>	<u>\$ -</u>
<b>Total allowance for credit losses</b>	<u>\$ 2,719,034</u>	<u>\$ 472,853</u>	<u>\$ 130,242</u>	<u>\$ 32,871</u>

	<b>Energy and Water/Waste Disposal</b>	<b>Rural Residential Real Estate</b>	<b>International</b>	<b>Total</b>
<b>Allowance for Credit Losses:</b>				
Balance at December 31, 2023	\$ 13,344	\$ 5,469	\$ 7,446	\$ 3,287,288
Charge-offs	-	-	-	-
Recoveries	-	-	-	-
Provision for credit losses/(Credit loss reversal)	772	629	(184)	54,108
Balance at March 31, 2024	<u>\$ 14,116</u>	<u>\$ 6,098</u>	<u>\$ 7,262</u>	<u>\$ 3,341,396</u>
<b>Allowance for credit losses on unfunded commitments:</b>				
Balance at December 31, 2023	\$ 1,000	\$ -	\$ 4,141	\$ 51,076
Provision for unfunded commitments	(64)	-	(245)	(5,164)
Balance at March 31, 2024	<u>\$ 936</u>	<u>\$ -</u>	<u>\$ 3,896</u>	<u>\$ 45,912</u>
<b>Total allowance for credit losses</b>	<u>\$ 15,052</u>	<u>\$ 6,098</u>	<u>\$ 11,158</u>	<u>\$ 3,387,308</u>

	<b>Real Estate Mortgage</b>	<b>Production and Intermediate- Term</b>	<b>Agribusiness</b>	<b>Communications</b>
Allowance for credit losses on loans:				
Balance at December 31, 2022	\$ 1,285,439	\$ 199,289	\$ 127,379	\$ 15,081
Cumulative effect if a change in accounting principle	1,195,421	(106,323)	36,604	2,711
Balance at January 1, 2023	<u>\$ 2,480,859</u>	<u>\$ 92,966</u>	<u>\$ 163,983</u>	<u>\$ 17,792</u>
Charge-offs	-	-	-	-
Recoveries	-	-	-	-
Provision for loan losses (Credit loss reversal)	21,667.89	3,693.21	205,520.43	2,063.11
Balance at March 31, 2023	<u><u>\$ 2,502,527</u></u>	<u><u>\$ 96,659</u></u>	<u><u>\$ 369,504</u></u>	<u><u>\$ 19,855</u></u>
Allowance for credit losses on unfunded commitments:				
Balance at December 31, 2022	13,239	31,024	24,620	-
Cumulative effect if a change in accounting principle	4,621	(18,729)	8,062	-
Balance at January 1, 2023	<u>17,860</u>	<u>12,295</u>	<u>32,682</u>	<u>-</u>
Provision for unfunded commitments	(1,355)	(2,676)	(3,176)	-
Balance at March 31, 2023	<u><u>\$ 16,505</u></u>	<u><u>\$ 9,619</u></u>	<u><u>\$ 29,507</u></u>	<u><u>\$ -</u></u>
Total allowance for credit losses	<u><u>\$ 2,519,032</u></u>	<u><u>\$ 106,278</u></u>	<u><u>\$ 399,010</u></u>	<u><u>\$ 19,855</u></u>

	<b>Energy and Water/Waste Disposal</b>	<b>Rural Residential Real Estate</b>	<b>International</b>	<b>Total</b>
Allowance for credit losses on loans:				
Balance at December 31, 2022	\$ 4,643	\$ 3,107	\$ 2,030	<b>\$ 1,636,968</b>
Cumulative effect if a change in accounting principle	1,233	2,364	(1,054)	<b>1,130,956</b>
Balance at January 1, 2023	<u>\$ 5,877</u>	<u>\$ 5,470</u>	<u>\$ 976</u>	<u><b>\$ 2,767,924</b></u>
Charge-offs	-	-	-	-
Recoveries	-	-	-	-
Provision for loan losses (Credit loss reversal)	3,505.63	(436.05)	2,158.15	<b>238,172.37</b>
Balance at March 31, 2023	<u><u>\$ 9,382</u></u>	<u><u>\$ 5,034</u></u>	<u><u>\$ 3,135</u></u>	<u><u><b>\$ 3,006,096</b></u></u>
Allowance for credit losses on unfunded commitments:				
Balance at December 31, 2022	-	-	2,109	<b>70,993</b>
Cumulative effect if a change in accounting principle	141	-	1,813	<b>(4,092)</b>
Balance at January 1, 2023	<u>141</u>	<u>-</u>	<u>3,922</u>	<u><b>66,900</b></u>
Provision for unfunded commitments	(7)	-	(2,056)	<b>(9,270)</b>
Balance at March 31, 2023	<u><u>\$ 134</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,866</u></u>	<u><u><b>\$ 57,631</b></u></u>
Total allowance for credit losses	<u><u>\$ 9,516</u></u>	<u><u>\$ 5,034</u></u>	<u><u>\$ 5,001</u></u>	<u><u><b>\$ 3,063,727</b></u></u>

The association did not grant any loan modifications to borrowers experiencing financial difficulty during the quarter.

### Discussion of Changes in Allowance for Credit Losses

Allowance of credit losses increased \$54,108 during the three months ended March 31, 2024, primarily due to the increase in loan volume during the period. The increase of \$238,903 in allowance for credit losses during the three months ended March 31, 2023, was primarily related to specific reserves of two capital market loans.

## NOTE 4 — CAPITAL:

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

### Regulatory Capitalization Requirements

<u>Risk-adjusted:</u>	<u>Regulatory Minimums with Buffer</u>	<u>As of March 31, 2024</u>
Common equity tier 1 ratio	7.00%	13.11%
Tier 1 capital ratio	8.50%	13.11%
Total capital ratio	10.50%	13.34%
Permanent capital ratio	7.00%	13.14%
<u>Non-risk-adjusted:</u>		
Tier 1 leverage ratio	5.00%	12.83%
UREE leverage ratio	1.50%	8.31%

The details for the amounts used in the calculation of the regulatory capital ratios as of March 31, 2024:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
<u>Numerator:</u>				
Unallocated retained earnings	79,164,673	79,164,673	79,164,673	79,164,673
Paid-in capital	10,238,891	10,238,891	10,238,891	10,238,891
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	5,429,877	5,429,877	5,429,877	5,429,877
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	61,007,218	61,007,218	61,007,218	61,007,218
Non-cumulative perpetual preferred stock		-	-	-
Other preferred stock subject to certain limitations			-	-
Subordinated debt subject to certain limitation				
Allowance for loan losses and reserve for credit losses subject to certain limitations			3,340,539	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(25,373,334)	(25,373,334)	(25,373,334)	(25,373,334)
Other regulatory required deductions	-	-	-	-
	192,920,005	192,920,005	196,260,544	192,920,005
<u>Denominator:</u>				
Risk-adjusted assets excluding allowance	1,496,946,244	1,496,946,244	1,496,946,244	1,496,946,244
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(25,373,334)	(25,373,334)	(25,373,334)	(25,373,334)
Allowance for loan losses				(3,289,693)
	1,471,572,910	1,471,572,910	1,471,572,910	1,468,283,217

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	79,164,673	79,164,673
Paid-in capital	10,238,891	10,238,891
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	5,429,877	-
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	61,007,218	61,007,218
Non-cumulative perpetual preferred stock	-	
Other preferred stock subject to certain limitations		
Subordinated debt subject to certain limitation		
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	(25,373,334)	(25,373,334)
Other regulatory required deductions	-	-
	<u>192,920,005</u>	<u>125,037,448</u>
Denominator:		
Total Assets	1,531,377,864	1,531,377,864
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(27,577,209)	(27,577,209)
	<u>1,503,800,655</u>	<u>1,503,800,655</u>

The association's accumulated other comprehensive income (loss) relates entirely to its non-pension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income (loss) for the three months ended March 31:

	<u>2024</u>	<u>2023</u>
Accumulated other comprehensive income (loss) at January 1	\$ 504,388	\$ 588,359
Amortization of prior service (credit) costs included		
in salaries and employee benefits	(3,374)	(3,375)
Amortization of actuarial (gain) loss included		
in salaries and employee benefits	(5,254)	(6,966)
Other comprehensive income (loss), net of tax	(8,628)	(10,341)
<b>Accumulated other comprehensive income (loss) at March 31</b>	<u>\$ 495,760</u>	<u>\$ 578,018</u>

## NOTE 5 — INCOME TAXES:

Southern AgCredit, ACA conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Southern AgCredit, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Southern AgCredit, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. For the three months ended March 31, 2024 and 2023, the net accrued tax liability/benefit was \$0.

## NOTE 6 — FAIR VALUE MEASUREMENTS:

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 14 in the 2023 Annual Report to Stockholders for a more complete description.

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

<u>March 31, 2024</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets held in non-qualified benefits trusts	<u>73,626</u>	<u>-</u>	<u>-</u>	<u>73,626</u>

<u>December 31, 2023</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets held in non-qualified benefits trusts	<u>68,101</u>	<u>-</u>	<u>-</u>	<u>68,101</u>

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

<u>March 31, 2024</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans	\$ -	\$ -	\$ 680,670	\$ 680,670

<u>December 31, 2023</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans	\$ -	\$ -	\$ 688,715	\$ 688,715

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

### Valuation Techniques

As more fully discussed in Note 14 to the 2023 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represents a brief summary of the valuation techniques used for the association's assets and liabilities. For a more complete description, see the 2023 Annual Report to Stockholders.

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

**NOTE 7 — EMPLOYEE BENEFIT PLANS:**

The following table summarizes the components of net periodic benefit costs for the three months ended March 31:

**Three months ended March 31:**

	<b>Other Benefits</b>	
	<b>2024</b>	<b>2023</b>
Service cost	\$ 5,692	\$ 6,131
Interest cost	38,491	35,403
Expected return on plan assets	-	-
Amortization of prior service (credits) costs	(3,375)	(3,375)
Amortization of net actuarial (gain) loss	(5,254)	(6,965)
<b>Net periodic benefit cost</b>	<b>\$ 35,555</b>	<b>\$ 31,194</b>

The association's liability for the unfunded accumulated obligation for these benefits at March 31, 2024, was \$2,881,194 and is included in other liabilities on the balance sheet.

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

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations). The association recognizes its amortized annual contributions to the plan as an expense. The association previously disclosed in its financial statements for the year ended December 31, 2023, that it expected to contribute \$201,072 to the district's defined benefit pension plan in 2024. As of March 31, 2024, \$67,024 of contributions have been made. The association presently anticipates contributing an additional \$134,048 to fund the defined benefit pension plan in 2024 for a total of \$201,072.

**NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:**

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

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 March 31, 2024, \$120,850,926 of commitments and \$301,705 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 balance sheet until funded or drawn upon. Therefore, the association has recognized an estimated risk loss liability, included on the balance sheet with other liabilities, determined on the same basis as the allowance for credit loss is determined. 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 9 — SUBSEQUENT EVENTS:**

The association has evaluated subsequent events through May 10, 2024 which is the date the financial statements were issued. There are no other significant events requiring disclosure as of May 10, 2024.