# TEXAS FARM CREDIT SERVICES

## 2024
## Quarterly Report

## For the Quarter Ended September 30, 2024

## REPORT OF MANAGEMENT

The consolidated financial statements of Texas Farm Credit Services (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 appropriate in the circumstances. Other financial information included in the quarterly report is consistent with that in the consolidated financial statements and there are no significant changes in the Association's internal controls or in other factors that could significantly affect such controls during the year.

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.

*/s/* Mark Miller

Mark Miller, Chief Executive Officer
*November 7, 2024*

*/s/* Bobby Hobson

Bobby Hobson, Chairman, Board of Directors
*November 7, 2024*

*/s/* Lane Pepper

Lane Pepper, Chief Financial & Risk Officer
*November 7, 2024*

# TEXAS FARM CREDIT SERVICES
# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Texas Farm Credit Services (ACA), referred to as the "Association", for the quarter ended September 30, 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 banks and associations 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, Texas Farm Credit Services, FLCA and Texas Farm Credit Services, PCA. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

**Significant Events**

On May 7, 2024, a Joint Board of Directors Resolution was approved by the Association and Heritage Land Bank, ACA, boards' of directors. This Resolution documented both boards' approval of merging the two associations. On May 29, 2024, the Farm Credit Bank of Texas approved the associations' proposed merger. Stockholder votes for the respective associations and Farm Credit Administration (FCA) merger approval were pending as of the date of the accompanying financial statements.

**Loan Portfolio**

Total loans outstanding at September 30, 2024, including nonaccrual loans and sales contracts, were $2,385,107,737 compared to $2,365,070,169 at December 31, 2023, reflecting an increase of 0.9 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.5 percent at September 30, 2024, compared to 0.6 percent at December 31, 2023.
The Association recorded $0 in recoveries and $0 in charge-offs for the quarter ended September 30, 2024, and $10,509 in recoveries and $0 in charge-offs for the same period in 2023. The Association's allowance for loan losses was 0.2 percent and 0.1 percent of total loans outstanding as of September 30, 2024, and December 31, 2023, respectively.

**Risk Exposure**

Nonperforming 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 nonperforming assets.

| | High-Risk Assets | | | |
|---|---|---|---|---|
| | **September 30, 2024** | | December 31, 2023 | |
| | **Amount** | **%** | Amount | % |
| Nonaccrual | **$ 11,335,142** | **100.0%** | $ 15,117,123 | 100.0% |
| 90 days past due and still accruing interest | **5** | **0.0%** | 5 | 0.0% |
| Nonperforming loans | **11,335,147** | **100.0%** | 15,117,128 | 100.0% |
| Other property owned, net | **-** | **0.0%** | - | 0.0% |
| **Total** | **$ 11,335,147** | **100.0%** | $ 15,117,128 | 100.0% |

**Results of Operations**

The Association had net income of $11,853,405 and $36,662,474 for the three and nine months ended September 30, 2024, as compared to net income of $12,179,532 and $36,449,233 for the same period in 2023, reflecting a decrease of 2.7 percent and an increase of 0.6 percent, respectively. Net interest income was $16,618,141 and $50,946,045 for the three and nine months ended September 30, 2024, compared to $15,025,301 and $44,712,074, for the same period in 2023, respectively.

| | Nine months ended | | | |
|---|---|---|---|---|
| | **September 30, 2024** | | September 30, 2023 | |
| | **Average Balance** | **Interest** | Average Balance | Interest |
| Loans | **$ 2,393,115,753** | **$ 114,039,873** | $ 2,252,695,648 | $ 94,855,173 |
| Investments | **246,912** | **14,768** | 374,644 | 20,224 |
| Total interest-earning assets | **2,393,362,665** | **114,054,641** | 2,253,070,292 | 94,875,397 |
| Interest-bearing liabilities | **2,156,168,843** | **63,108,596** | 2,031,656,726 | 50,163,323 |
| Impact of capital | **$ 237,193,822** | | $ 221,413,566 | |
| Net interest income | | **$ 50,946,045** | | $ 44,712,074 |

| | **2024 Average Yield** | 2023 Average Yield |
|---|---|---|
| Yield on loans | **6.37%** | 5.63% |
| Yield on investments | **7.99%** | 7.22% |
| Total yield on interest-earning assets | **6.37%** | 5.63% |
| Cost of interest-bearing liabilities | **3.91%** | 3.30% |
| Interest rate spread | **2.46%** | 2.33% |
| Net interest income as a percentage of average earning assets | **2.84%** | 2.65% |

| | **Nine months ended September 30, 2024 vs. September 30, 2023** | | |
|---|---|---|---|
| | **Increase (decrease) due to** | | |
| | **Volume** | **Rate** | **Total** |
| Interest income - loans | **$ 5,918,334** | **$ 13,266,366** | **$ 19,184,700** |
| Interest income - investments | **(6,902)** | **1,446** | **(5,456)** |
| Total interest income | **5,911,432** | **13,267,812** | **19,179,244** |
| Interest expense | **3,077,273** | **9,868,000** | **12,945,273** |
| **Net interest income** | **$ 2,834,159** | **$ 3,399,812** | **$ 6,233,971** |

Interest income for the three and nine months ended September 30, 2024, increased by $5,241,252 and $19,179,244, or 15.9 and 20.2 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 and nine months ended September 30, 2024, increased by $3,648,412 and $12,945,273, or 20.3 and 25.8 percent, from the same period of 2023 due to an increase in the cost of funding as well as an increase in average debt volume. Average loan volume for the third quarter of 2024 was $2,393,115,753, compared to $2,252,695,648 in the third quarter of 2023. The average net interest rate spread on the loan portfolio for the third quarter of 2024 was 2.46 percent, compared to 2.33 percent in the third quarter of 2023.

The Association's return on average assets for the nine months ended September 30, 2024, was 1.97 percent compared to 2.08 percent for the same period in 2023. The Association's return on average equity for the nine months ended September 30, 2024, was 16.19 percent, compared to 17.50 percent for the same period in 2023.

Noninterest income for the nine months ended September 30, 2024, decreased by $1,168,423, or 7.3 percent, compared to the same period of 2023, primarily due to a reduction of accrued direct note patronage from the Farm Credit Bank of Texas. Noninterest expense for the nine months ended September 30, 2024, increased by $1,411,266, or 5.3 percent, compared to the same period of 2023, primarily due to an increase in salaries and employee benefits and supervisory exam expense offset by a reduction in insurance fund premiums.

**Liquidity and Funding Sources**

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

| | **September 30, 2024** | December 31, 2023 |
|---|---|---|
| Note payable to the Bank | **$ 2,142,278,561** | $ 2,120,945,005 |
| Accrued interest on note payable | **7,017,127** | 6,557,132 |
| Total | **$ 2,149,295,688** | $ 2,127,502,137 |

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2026. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $2,142,278,561 as of September 30, 2024, is recorded as a liability on the Association's Consolidated Balance Sheet. The note carried a weighted average interest rate of 3.91 percent at September 30, 2024. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the GFA. The increase in note payable to the Bank and related accrued interest payable since December 31, 2023, is due to the Association's increased debt on match-funded loan assets. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $240,594,539 at September 30, 2024. The maximum amount the Association may borrow from the Bank as of September 30, 2024, was $2,387,449,282 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, 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 2024. As borrower payments are received, they are applied to the Association's note payable to the Bank.

**Capital Resources**

The Association's capital position increased by $36,106,906 at September 30, 2024, compared to December 31, 2023. The Association's debt as a percentage of members' equity was 6.77:1 as of September 30, 2024, compared to 7.63:1 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 September 30, 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 stockholders' 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 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 annual and quarterly stockholder reports for the Bank are also available on its website at [www.farmcreditbank.com](www.farmcreditbank.com).

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Texas Farm Credit Services, 545 South Hwy. 77, Robstown, Texas, 78380 or calling (361) 387-8563. The annual and quarterly stockholder reports for the Association are also available on its website at [www.texasfarmcredit.com](www.texasfarmcredit.com). Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *lpepper@texasfarmcredit.com.*

**TEXAS FARM CREDIT SERVICES**

**CONSOLIDATED BALANCE SHEET**

| | September 30, 2024 (unaudited) | December 31, 2023 |
|---|---|---|
| **ASSETS** | | |
| Cash | $ **21,024** | $ 22,851 |
| Investments | **195,203** | 301,055 |
| Loans | **2,385,107,737** | 2,365,070,169 |
| Less: allowance for credit losses on loans | **3,628,047** | 2,409,922 |
| Net loans | **2,381,479,690** | 2,362,660,247 |
| Accrued interest receivable | **27,548,386** | 22,247,759 |
| Investment in and receivable from the Farm Credit Bank of Texas: | | |
| Capital stock | **42,358,013** | 42,377,213 |
| Other | **12,979,015** | 2,669,822 |
| Deferred taxes, net | **151,012** | 70,130 |
| Premises and equipment, net | **18,261,317** | 18,056,720 |
| Other assets | **6,286,734** | 5,535,444 |
| Total assets | $ **2,489,280,394** | $ 2,453,941,241 |
| **LIABILITIES** | | |
| Note payable to the Farm Credit Bank of Texas | $ **2,142,278,561** | $ 2,120,945,005 |
| Advance conditional payments | **3,959,819** | 1,231,045 |
| Accrued interest payable | **7,017,127** | 6,557,132 |
| Drafts outstanding | **807,857** | 92,357 |
| Patronage distributions payable | **-** | 21,969,124 |
| Other liabilities | **14,716,042** | 18,752,496 |
| Total liabilities | **2,168,779,406** | 2,169,547,159 |
| **MEMBERS' EQUITY** | | |
| Capital stock and participation certificates | **4,063,250** | 4,623,975 |
| Additional paid-in capital | **47,596,495** | 47,596,495 |
| Allocated retained earnings | **52,244,352** | 52,244,352 |
| Unallocated retained earnings | **215,833,233** | 179,106,436 |
| Accumulated other comprehensive income | **763,658** | 822,824 |
| Total members' equity | **320,500,988** | 284,394,082 |
| Total liabilities and members' equity | $ **2,489,280,394** | $ 2,453,941,241 |

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

**TEXAS FARM CREDIT SERVICES**

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| **INTEREST INCOME** | | | | |
| Loans | **$ 38,231,043** | $ 32,987,839 | **$ 114,039,873** | $ 94,855,173 |
| Investments | **4,343** | 6,295 | **14,768** | 20,224 |
| Total interest income | **38,235,386** | 32,994,134 | **114,054,641** | 94,875,397 |
| **INTEREST EXPENSE** | | | | |
| Note payable to the Farm Credit Bank of Texas | **21,604,813** | 17,949,611 | **63,083,456** | 50,141,248 |
| Advance conditional payments | **12,432** | 19,222 | **25,140** | 22,075 |
| Total interest expense | **21,617,245** | 17,968,833 | **63,108,596** | 50,163,323 |
| Net interest income | **16,618,141** | 15,025,301 | **50,946,045** | 44,712,074 |
| Provision for (reversal of) loan losses | **458,048** | (2,280,842) | **1,183,489** | (2,474,569) |
| Net interest income after provision for credit losses | **16,160,093** | 17,306,143 | **49,762,556** | 47,186,643 |
| **NONINTEREST INCOME** | | | | |
| Income from the Farm Credit Bank of Texas: | | | | |
| Patronage income | **2,074,588** | 777,533 | **6,254,673** | 9,108,413 |
| Loan fees | **1,595,045** | 1,180,069 | **4,051,631** | 2,693,336 |
| Refunds from Farm Credit System Insurance Corporation | **-** | - | **685,571** | - |
| Financially related services income | **858,043** | 850,552 | **3,354,435** | 3,505,002 |
| Gain (loss) on sale of premises and equipment, net | **92,819** | 90,860 | **328,051** | 308,967 |
| Other noninterest income | **56,119** | 33,015 | **187,648** | 414,714 |
| Total noninterest income | **4,676,614** | 2,932,029 | **14,862,009** | 16,030,432 |
| **NONINTEREST EXPENSES** | | | | |
| Salaries and employee benefits | **5,340,673** | 4,405,627 | **16,003,702** | 14,741,338 |
| Directors' expense | **195,446** | 237,501 | **410,450** | 542,564 |
| Purchased services | **257,924** | 183,734 | **696,450** | 643,280 |
| Travel | **452,447** | 442,554 | **1,264,332** | 1,245,957 |
| Occupancy and equipment | **585,057** | 550,650 | **2,835,510** | 2,687,596 |
| Communications | **86,962** | 94,925 | **277,196** | 336,668 |
| Advertising | **130,407** | 76,707 | **324,050** | 260,603 |
| Public and member relations | **283,221** | 159,662 | **993,447** | 800,422 |
| Supervisory and exam expense | **163,529** | 141,681 | **636,270** | 425,043 |
| Insurance fund premiums | **520,444** | 895,504 | **1,546,420** | 2,619,549 |
| Merger-implementation and restructuring costs | **80,868** | - | **182,028** | - |
| Other noninterest expense | **847,724** | 737,546 | **2,873,119** | 2,328,688 |
| Total noninterest expenses | **8,944,702** | 7,926,091 | **28,042,974** | 26,631,708 |
| Income before income taxes | **11,892,005** | 12,312,081 | **36,581,591** | 36,585,367 |
| Provision for (benefit from) income taxes | **38,600** | 132,549 | **(80,883)** | 136,134 |
| **NET INCOME** | **11,853,405** | 12,179,532 | **36,662,474** | 36,449,233 |
| Other comprehensive income: | | | | |
| Change in postretirement benefit plans | **(19,722)** | (19,167) | **(59,166)** | (57,501) |
| **COMPREHENSIVE INCOME** | **$ 11,833,683** | $ 12,160,365 | **$ 36,603,308** | $ 36,391,732 |

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

**TEXAS FARM CREDIT SERVICES**

**CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY**
(unaudited)

| | Capital Stock/ Participation Certificates | Additional Paid-in-Capital | Retained Earnings Allocated | Retained Earnings Unallocated | Accumulated Other Comprehensive Income (Loss) | Total Members' Equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2022 | $ 4,580,185 | $ 47,596,495 | $ 53,219,859 | $ 156,044,338 | $ 861,603 | $ 262,302,480 |
| Comprehensive income | | - | - | 36,449,233 | (57,501) | 36,391,732 |
| Capital stock/participation certificates and allocated retained earnings issued | 221,960 | - | - | - | - | 221,960 |
| Capital stock/participation certificates and allocated retained earnings retired | (199,395) | - | - | - | - | (199,395) |
| Adjustment due to CECL adoption | - | - | - | (1,786,948) | - | (1,786,948) |
| Patronage refunds: | | | | | | |
| Cash | - | - | - | 33,114 | - | 33,114 |
| Balance at September 30, 2023 | $ 4,602,750 | $ 47,596,495 | $ 53,219,859 | $ 190,739,737 | $ 804,102 | $ 296,962,943 |
| | | | | | | |
| **Balance at December 31, 2023** | **$ 4,623,975** | **$ 47,596,495** | **$ 52,244,352** | **$ 179,106,436** | **$ 822,824** | **$ 284,394,082** |
| Comprehensive income | **-** | **-** | **-** | **36,662,474** | **(59,166)** | **36,603,308** |
| Capital stock/participation certificates and allocated retained earnings issued | **227,380** | **-** | **-** | **-** | **-** | **227,380** |
| Capital stock/participation certificates and allocated retained earnings retired | **(788,105)** | **-** | **-** | **-** | **-** | **(788,105)** |
| Patronage refunds: | | | | | | |
| Cash | **-** | **-** | **-** | **64,323** | **-** | **64,323** |
| **Balance at September 30, 2024** | **$ 4,063,250** | **$ 47,596,495** | **$ 52,244,352** | **$ 215,833,233** | **$ 763,658** | **$ 320,500,988** |

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

## NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Texas Farm Credit Services (Agricultural Credit Association), referred to as the "Association", is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Anderson, Angelina, Aransas, Atascosa, Austin, Bandera, Bee, Bexar, Bowie, Brooks, Cameron, Camp, Cass, Chambers, Cherokee, Collin, Cooke, Dallas, Delta, Denton, DeWitt, Dimmit, Duval, Edwards, Fannin, Fayette, Franklin, Freestone, Frio, Goliad, Gonzales, Grayson, Gregg, Guadalupe, Hardin, Harrison, Henderson, Hidalgo, Hopkins, Houston, Hunt, Jasper, Jefferson, Jim Hogg, Jim Wells, Karnes, Kaufman, Kenedy, Kerr, Kinney, Kleberg, Lamar, LaSalle, Lavaca, Leon, Liberty, Limestone, Live Oak, Marion, Maverick, McMullen, Medina, Montgomery, Morris, Nacogdoches, Newton, Nueces, Orange, Panola, Polk, Rains, Real, Red River, Rockwall, Rusk, Sabine, San Augustine, San Jacinto, San Patricio, Shelby, Smith, Starr, Titus, Trinity, Tyler, Upshur, Uvalde, Val Verde, Van Zandt, Walker, Waller, Washington, Webb, Willacy, Wilson, Wood, Zapata, and Zavala, parts of Refugio, and the lower half of Lee in the State of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

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

In the opinion of management, the unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods and conform with GAAP, except for the exclusion 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, 2024. 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.

On May 7, 2024, a Joint Board of Directors Resolution was approved by the Association and Heritage Land Bank, ACA, boards' of directors. This Resolution documented both boards' approval of merging the two associations. On May 29, 2024, the Farm Credit Bank of Texas approved the associations' proposed merger. Stockholder votes for the respective associations and Farm Credit Administration (FCA) merger approval were pending as of the date of the accompanying financial statements.

**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 holds Federal Agricultural Mortgage Corporation (Farmer Mac) agricultural mortgage-backed securities. These securities were agricultural loans previously covered under a Long-Term Standby Commitment to Purchase agreement with Farmer Mac and were subsequently 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 basis points to 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:

| | **September 30, 2024** | | | | |
|---|---|---|---|---|---|
| | **Amortized Cost** | **Gross Unrealized Losses** | **Fair Value** | **Weighted Average Yield** | **Weighted Average Life** |
| Agricultural mortgage-backed securities | **$ 195,203** | **$ (3,451)** | **$ 191,752** | **6.01%** | **3.26 Years** |

| | December 31, 2023 | | | | |
|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Losses | Fair Value | Weighted Average Yield | Weighted Average Life |
| Agricultural mortgage-backed securities | $ 301,055 | $ (9,084) | $ 291,971 | 6.12% | 3.82 Years |

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

A summary of the Association's loan portfolio follows:

| Loan Type | **September 30, 2024 Amount** | December 31, 2023 Amount |
|---|---|---|
| Production agriculture: | | |
| Real estate mortgage | **$ 1,874,111,900** | $ 1,841,308,216 |
| Production and intermediate-term | **300,663,950** | 320,588,672 |
| Agribusiness: | | |
| Processing and marketing | **110,075,453** | 91,855,671 |
| Farm-related business | **33,262,048** | 44,182,696 |
| Loans to cooperatives | **18,356,788** | 19,300,676 |
| Communication | **21,489,321** | 20,490,514 |
| Water and waste-water | **12,772,217** | 14,902,097 |
| Energy | **6,416,581** | 5,106,807 |
| Agricultural export finance | **6,313,860** | 5,587,816 |
| Rural residential real estate | **950,790** | 1,002,365 |
| Mission-related investments | **694,829** | 744,639 |
| **Total** | **$ 2,385,107,737** | $ 2,365,070,169 |

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations.

The following table presents information regarding the balances of participations purchased and sold at September 30, 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 | $ 63,734,268 | $ 78,770,824 | $ 7,589,970 | $ - | $ 71,324,238 | $ 78,770,824 |
| Production and intermediate-term | 25,750,884 | 41,443,159 | - | - | 25,750,884 | 41,443,159 |
| Agribusiness | 110,911,325 | 9,295,352 | 3,385,139 | - | 114,296,464 | 9,295,352 |
| Communication | 21,489,322 | - | - | - | 21,489,322 | - |
| Water and waste-water | 12,772,217 | - | - | - | 12,772,217 | - |
| Energy | 6,416,581 | - | - | - | 6,416,581 | - |
| Agricultural export finance | 6,313,860 | - | - | - | 6,313,860 | - |
| **Total** | $ 247,388,457 | $ 129,509,335 | $ 10,975,109 | $ - | $ 258,363,566 | $ 129,509,335 |

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 $3,959,819 and $1,231,045 at September 30, 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 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 enhanced focus on 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, associations 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 mortgages 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. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full and/or the loan is classified nonaccrual. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses and risks in a particular relationship.

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

- Acceptable — assets are expected to be fully collectible and represent the highest quality;
- Other assets especially mentioned (OAEM) — assets are currently collectible but exhibit some potential weakness;
- Substandard — assets exhibit some serious weakness that if not cured jeopardizes repayment;
- Doubtful — assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable; and
- Loss — assets are considered uncollectible.

The following table presents credit quality indicators by loan type and the related principal balance as of September 30, 2024:

| | Term Loans Amortized Cost by Origination Year | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **September 30, 2024** | **2024** | **2023** | **2022** | **2021** | **2020** | **Prior** | **Revolving Loans Amortized Cost Basis** | **Revolving Loans Converted to Term Loans Amortized Cost Basis** | **Total** |
| **Real estate mortgage** | | | | | | | | | |
| Acceptable | $ 201,561,232 | $ 212,482,334 | $ 337,042,323 | $ 527,681,314 | $ 259,730,991 | $ 318,704,466 | $ 1,415,915 | $ - | $ 1,858,618,575 |
| OAEM | - | - | 2,156,371 | 1,086,907 | - | 2,345,727 | - | - | 5,589,005 |
| Substandard/Doubtful | 694,829 | 538,352 | - | 2,844,514 | 2,543,693 | 3,282,932 | - | - | 9,904,320 |
| | 202,256,061 | 213,020,686 | 339,198,694 | 531,612,735 | 262,274,684 | 324,333,125 | 1,415,915 | - | 1,874,111,900 |
| Current period gross charge-offs | - | - | - | - | - | - | - | - | - |
| **Production and intermediate-term** | | | | | | | | | |
| Acceptable | 26,026,962 | 67,524,562 | 13,747,750 | 8,911,859 | 14,185,668 | 3,605,228 | 133,795,770 | - | 267,797,799 |
| OAEM | 4,051,674 | 4,863,167 | 638,437 | 167,520 | - | - | 6,154,949 | - | 15,875,747 |
| Substandard/Doubtful | 8,349,956 | 8,354,483 | - | 72,422 | - | 213,543 | - | - | 16,990,404 |
| | 38,428,592 | 80,742,212 | 14,386,187 | 9,151,801 | 14,185,668 | 3,818,771 | 139,950,719 | - | 300,663,950 |
| Current period gross charge-offs | - | - | - | - | - | - | - | - | - |
| **Agribusiness** | | | | | | | | | |
| Acceptable | 15,341,882 | 21,636,269 | 40,832,674 | 10,665,872 | 8,621,848 | 5,044,842 | 42,336,712 | - | 144,480,099 |
| OAEM | 1,384,572 | - | 3,001,719 | - | - | - | 1,972,571 | - | 6,358,862 |
| Substandard/Doubtful | - | 1,984,848 | - | - | 4,098,884 | 4,771,596 | - | - | 10,855,328 |
| | 16,726,454 | 23,621,117 | 43,834,393 | 10,665,872 | 12,720,732 | 9,816,438 | 44,309,283 | - | 161,694,289 |
| Current period gross charge-offs | - | - | - | - | - | - | - | - | - |
| **Communications** | | | | | | | | | |
| Acceptable | 5,771,274 | 9,500,251 | - | - | 5,589,458 | - | 283,289 | - | 21,144,272 |
| OAEM | 345,049 | - | - | - | - | - | - | - | 345,049 |
| Substandard/Doubtful | - | - | - | - | - | - | - | - | - |
| | 6,116,323 | 9,500,251 | - | - | 5,589,458 | - | 283,289 | - | 21,489,321 |
| Current period gross charge-offs | - | - | - | - | - | - | - | - | - |
| **Energy** | | | | | | | | | |
| Acceptable | 1,434,466 | 3,496,521 | - | - | - | 1,234,810 | - | - | 6,165,797 |
| OAEM | - | - | - | - | - | - | - | - | - |
| Substandard/Doubtful | - | - | - | - | - | 250,784 | - | - | 250,784 |
| | 1,434,466 | 3,496,521 | - | - | - | 1,485,594 | - | - | 6,416,581 |
| Current period gross charge-offs | - | - | - | - | - | - | - | - | - |
| **Water/waste disposal** | | | | | | | | | |
| Acceptable | - | 7,422,111 | 2,788,280 | 2,479,079 | - | - | 82,747 | - | 12,772,217 |
| OAEM | - | - | - | - | - | - | - | - | - |
| Substandard/Doubtful | - | - | - | - | - | - | - | - | - |
| | - | 7,422,111 | 2,788,280 | 2,479,079 | - | - | 82,747 | - | 12,772,217 |
| Current period gross charge-offs | - | - | - | - | - | - | - | - | - |
| **Rural residential real estate** | | | | | | | | | |
| Acceptable | - | - | - | - | 82,394 | 482,468 | - | - | 564,862 |
| OAEM | - | - | - | - | - | 315,691 | - | - | 315,691 |
| Substandard/Doubtful | - | - | - | - | - | 70,237 | - | - | 70,237 |
| | - | - | - | - | 82,394 | 868,396 | - | - | 950,790 |
| Current period gross charge-offs | - | - | - | - | - | - | - | - | - |
| **International** | | | | | | | | | |
| Acceptable | - | 5,588,513 | - | - | - | - | 725,347 | - | 6,313,860 |
| OAEM | - | - | - | - | - | - | - | - | - |
| Substandard/Doubtful | - | - | - | - | - | - | - | - | - |
| | - | 5,588,513 | - | - | - | - | 725,347 | - | 6,313,860 |
| Current period gross charge-offs | - | - | - | - | - | - | - | - | - |
| **Mission-related** | | | | | | | | | |
| Acceptable | - | - | - | - | - | 694,829 | - | - | 694,829 |
| OAEM | - | - | - | - | - | - | - | - | - |
| Substandard/Doubtful | - | - | - | - | - | - | - | - | - |
| | - | - | - | - | - | 694,829 | - | - | 694,829 |
| Current period gross charge-offs | - | - | - | - | - | - | - | - | - |
| **Total Loans** | | | | | | | | | |
| Acceptable | **$ 250,135,816** | **$ 327,650,561** | **$ 394,411,027** | **$ 549,738,124** | **$ 288,210,359** | **$ 329,766,643** | **$ 178,639,780** | **$ -** | **$ 2,318,552,310** |
| OAEM | **5,781,295** | **4,863,167** | **5,796,527** | **1,254,427** | **-** | **2,661,418** | **8,127,520** | **-** | **28,484,354** |
| Substandard/Doubtful | **9,044,785** | **10,877,683** | **-** | **2,916,936** | **6,642,577** | **8,589,092** | **-** | **-** | **38,071,073** |
| | **$ 264,961,896** | **$ 343,391,411** | **$ 400,207,554** | **$ 553,909,487** | **$ 294,852,936** | **$ 341,017,153** | **$ 186,767,300** | **$ -** | **$ 2,385,107,737** |
| Current period gross charge-offs | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |

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

| | Term Loans Amortized Cost by Origination Year | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| December 31, 2023 | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Revolving Loans Amortized Cost Basis | Revolving Loans Converted to Term Loans Amortized Cost Basis | Total |
| **Real estate mortgage** | | | | | | | | | |
| Acceptable | $ 250,719,930 | $ 377,761,439 | $ 557,875,226 | $ 284,123,745 | $ 95,059,256 | $ 265,226,995 | $ - | $ - | $ 1,830,766,591 |
| OAEM | - | - | 766,062 | 846,430 | 1,468,817 | 1,471,092 | - | - | 4,552,401 |
| Substandard/Doubtful | 250,000 | - | 2,399,262 | 660,308 | 254,468 | 2,425,186 | - | - | 5,989,224 |
| | 250,969,930 | 377,761,439 | 561,040,550 | 285,630,483 | 96,782,541 | 269,123,273 | - | - | 1,841,308,216 |
| Gross charge-offs for the year ended December 31 | - | - | - | - | - | - | - | - | - |
| **Production and intermediate-term** | | | | | | | | | |
| Acceptable | 86,674,324 | 25,937,430 | 12,419,407 | 17,070,699 | 923,544 | 3,639,457 | 159,214,977 | - | 305,879,838 |
| OAEM | 4,446,438 | 10,259 | - | - | 75,025 | - | 673,350 | - | 5,205,072 |
| Substandard/Doubtful | 8,872,056 | 218,572 | 128,498 | - | 211,583 | 73,053 | - | - | 9,503,762 |
| | 99,992,818 | 26,166,261 | 12,547,905 | 17,070,699 | 1,210,152 | 3,712,510 | 159,888,327 | - | 320,588,672 |
| Gross charge-offs for the year ended December 31 | - | - | - | - | - | - | - | - | - |
| **Agribusiness** | | | | | | | | | |
| Acceptable | 22,855,701 | 43,757,260 | 13,076,892 | 11,398,659 | 4,761,367 | 531,875 | 43,074,590 | - | 139,456,344 |
| OAEM | - | 1,866,265 | - | - | - | - | 1,867,894 | - | 3,734,159 |
| Substandard/Doubtful | - | - | - | 4,533,639 | - | 7,614,901 | - | - | 12,148,540 |
| | 22,855,701 | 45,623,525 | 13,076,892 | 15,932,298 | 4,761,367 | 8,146,776 | 44,942,484 | - | 155,339,043 |
| Gross charge-offs for the year ended December 31 | - | - | - | - | - | - | - | - | - |
| **Communications** | | | | | | | | | |
| Acceptable | 9,095,375 | - | - | 10,178,850 | - | - | 136,850 | - | 19,411,075 |
| OAEM | - | - | - | 1,079,439 | - | - | - | - | 1,079,439 |
| Substandard/Doubtful | - | - | - | - | - | - | - | - | - |
| | 9,095,375 | - | - | 11,258,289 | - | - | 136,850 | - | 20,490,514 |
| Gross charge-offs for the year ended December 31 | - | - | - | - | - | - | - | - | - |
| **Energy** | | | | | | | | | |
| Acceptable | 3,495,734 | - | - | - | - | 1,315,321 | - | - | 4,811,055 |
| OAEM | - | - | - | - | - | - | - | - | - |
| Substandard/Doubtful | - | - | - | - | - | 295,752 | - | - | 295,752 |
| | 3,495,734 | - | - | - | - | 1,611,073 | - | - | 5,106,807 |
| Gross charge-offs for the year ended December 31 | - | - | - | - | - | - | - | - | - |
| **Water and waste disposal** | | | | | | | | | |
| Acceptable | 9,377,548 | 2,905,440 | 2,497,062 | - | - | - | 122,047 | - | 14,902,097 |
| OAEM | - | - | - | - | - | - | - | - | - |
| Substandard/Doubtful | - | - | - | - | - | - | - | - | - |
| | 9,377,548 | 2,905,440 | 2,497,062 | - | - | - | 122,047 | - | 14,902,097 |
| Gross charge-offs for the year ended December 31 | - | - | - | - | - | - | - | - | - |
| **Rural residential real estate** | | | | | | | | | |
| Acceptable | - | - | - | 85,140 | - | 504,438 | - | - | 589,578 |
| OAEM | - | - | - | - | - | 334,912 | - | - | 334,912 |
| Substandard/Doubtful | - | - | - | - | - | 77,875 | - | - | 77,875 |
| | - | - | - | 85,140 | - | 917,225 | - | - | 1,002,365 |
| Gross charge-offs for the year ended December 31 | - | - | - | - | - | - | - | - | - |
| **International** | | | | | | | | | |
| Acceptable | 5,587,816 | - | - | - | - | - | - | - | 5,587,816 |
| OAEM | - | - | - | - | - | - | - | - | - |
| Substandard/Doubtful | - | - | - | - | - | - | - | - | - |
| | 5,587,816 | - | - | - | - | - | - | - | 5,587,816 |
| Gross charge-offs for the year ended December 31 | - | - | - | - | - | - | - | - | - |
| **Mission-related** | | | | | | | | | |
| Acceptable | - | - | - | - | - | 744,639 | - | - | 744,639 |
| OAEM | - | - | - | - | - | - | - | - | - |
| Substandard/Doubtful | - | - | - | - | - | - | - | - | - |
| | - | - | - | - | - | 744,639 | - | - | 744,639 |
| Gross charge-offs for the year ended December 31 | - | - | - | - | - | - | - | - | - |
| **Total Loans** | | | | | | | | | |
| Acceptable | $ 387,806,428 | $ 450,361,569 | $ 585,868,587 | $ 322,857,093 | $ 100,744,167 | $ 271,962,725 | $ 202,548,464 | $ - | $ 2,322,149,033 |
| OAEM | 4,446,438 | 1,876,524 | 766,062 | 1,925,869 | 1,543,842 | 1,806,004 | 2,541,244 | - | 14,905,983 |
| Substandard/Doubtful | 9,122,056 | 218,572 | 2,527,760 | 5,193,947 | 466,051 | 10,486,767 | - | - | 28,015,153 |
| | $ 401,374,922 | $ 452,456,665 | $ 589,162,409 | $ 329,976,909 | $ 102,754,059 | $ 284,255,496 | $ 205,089,708 | $ - | $ 2,365,070,169 |
| Total Gross charge-offs for the year ended December 31, 2023 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |

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 September 30, 2024, and December 31, 2023:

| | September 30, 2024 | | December 31, 2023 | |
|---|---|---|---|---|
| Real estate mortgage | | | | |
| Acceptable | **98.7** | **%** | 99.3 | % |
| OAEM | **0.7** | **%** | 0.4 | % |
| Substandard/doubtful | **0.6** | **%** | 0.3 | % |
| | **100.0** | **%** | 100.0 | % |
| Production and intermediate term | | | | |
| Acceptable | **89.1** | **%** | 95.4 | % |
| OAEM | **5.3** | **%** | 1.6 | % |
| Substandard/doubtful | **5.6** | **%** | 3.0 | % |
| | **100.0** | **%** | 100.0 | % |
| Loans to cooperatives | | | | |
| Acceptable | **80.0** | **%** | 100.0 | % |
| OAEM | **20.0** | **%** | - | % |
| Substandard/doubtful | **-** | **%** | - | % |
| | **100.0** | **%** | 100.0 | % |
| Processing and marketing | | | | |
| Acceptable | **93.4** | **%** | 95.9 | % |
| OAEM | **4.8** | **%** | 4.1 | % |
| Substandard/doubtful | **1.8** | **%** | - | % |
| | **100.0** | **%** | 100.0 | % |
| Farm-related business | | | | |
| Acceptable | **71.2** | **%** | 72.5 | % |
| OAEM | **2.2** | **%** | - | % |
| Substandard/doubtful | **26.6** | **%** | 27.5 | % |
| | **100.0** | **%** | 100.0 | % |
| Communication | | | | |
| Acceptable | **98.4** | **%** | 94.7 | % |
| OAEM | **1.6** | **%** | 5.3 | % |
| Substandard/doubtful | **-** | **%** | - | % |
| | **100.0** | **%** | 100.0 | % |
| Energy | | | | |
| Acceptable | **96.0** | **%** | 94.2 | % |
| OAEM | **-** | **%** | - | % |
| Substandard/doubtful | **4.0** | **%** | 5.8 | % |
| | **100.0** | **%** | 100.0 | % |
| Water and waste-water | | | | |
| Acceptable | **100.0** | **%** | 100.0 | % |
| OAEM | **-** | **%** | - | % |
| Substandard/doubtful | **-** | **%** | - | % |
| | **100.0** | **%** | 100.0 | % |
| Rural residential real estate | | | | |
| Acceptable | **59.4** | **%** | 58.8 | % |
| OAEM | **33.2** | **%** | 33.4 | % |
| Substandard/doubtful | **7.4** | **%** | 7.8 | % |
| | **100.0** | **%** | 100.0 | % |
| Agricultural export finance | | | | |
| Acceptable | **100.0** | **%** | 100.0 | % |
| OAEM | **-** | **%** | - | % |
| Substandard/doubtful | **-** | **%** | - | % |
| | **100.0** | **%** | 100.0 | % |
| Mission-related investments | | | | |
| Acceptable | **100.0** | **%** | 100.0 | % |
| OAEM | **-** | **%** | - | % |
| Substandard/doubtful | **-** | **%** | - | % |
| | **100.0** | **%** | 100.0 | % |
| Total Loans | | | | |
| Acceptable | **96.7** | **%** | 98.1 | % |
| OAEM | **1.6** | **%** | 0.7 | % |
| Substandard/doubtful | **1.7** | **%** | 1.2 | % |
| | **100.0** | **%** | 100.0 | % |

Accrued interest receivable on loans of $27,543,723 and $22,243,153 at September 30, 2024, and December 31, 2023, respectively, have been excluded from the amortized cost of loans and reported separately in the Consolidated Balance Sheet. The Association wrote off accrued interest receivable of $16,693 and $272,025 the nine months ended September 30, 2024, and 2023.

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

| | September 30, 2024 | December 31, 2023 |
|---|---|---|
| **Nonaccrual loans:** | | |
| Real estate mortgage | $ 2,213,878 | $ 2,445,690 |
| Production and intermediate-term | - | 227,141 |
| Agribusiness | 8,870,480 | 12,148,540 |
| Energy | 250,784 | 295,752 |
| Total nonaccrual loans | 11,335,142 | 15,117,123 |
| **Accruing loans 90 days or more past due:** | | |
| Production and intermediate-term | 5 | 5 |
| Total accruing loans 90 days or more past due | 5 | 5 |
| Other property owned | - | - |
| **Total nonperforming assets** | $ 11,335,147 | $ 15,117,128 |
| Nonaccrual loans as a percentage of total loans | 0.48% | 0.64% |
| Nonperforming assets as a percentage of total loans and other property owned | 0.48% | 0.64% |
| Nonperforming assets as a percentage of capital | 3.54% | 5.32% |

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

| | September 30, 2024 | | | Interest Income Recognized | |
|---|---|---|---|---|---|
| | Amortized Cost with Allowance | Amortized Cost without Allowance | Total | For the Three Months Ended September 30, 2024 | For the Nine Months Ended September 30, 2024 |
| **Nonaccrual loans:** | | | | | |
| Real estate mortgage | $ - | $ 2,213,878 | $ 2,213,878 | $ 373,572 | $ 853,601 |
| Production and intermediate-term | - | - | - | 22,024 | 1,226,918 |
| Agribusiness | - | 8,870,480 | 8,870,480 | - | 3,232 |
| Energy | 250,784 | - | 250,784 | - | - |
| **Total nonaccrual loans** | $ 250,784 | $ 11,084,358 | $ 11,335,142 | $ 395,596 | $ 2,083,751 |

| | September 30, 2023 | | | Interest Income Recognized | |
|---|---|---|---|---|---|
| | Amortized Cost with Allowance | Amortized Cost without Allowance | Total | For the Three Months Ended September 30, 2023 | For the Nine Months Ended September 30, 2023 |
| **Nonaccrual loans:** | | | | | |
| Real estate mortgage | $ - | $ 2,226,158 | $ 2,226,158 | $ 35,202 | $ 50,620 |
| Production and intermediate-term | - | 939,408 | 939,408 | - | 38,393 |
| Agribusiness | - | 12,148,540 | 12,148,540 | - | - |
| Energy | 335,810 | - | 335,810 | - | - |
| **Total nonaccrual loans** | $ 335,810 | $ 15,314,106 | $ 15,649,916 | $ 35,202 | $ 89,013 |

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

| September 30, 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 | Recorded Investment > 90 Days and Accruing |
|---|---|---|---|---|---|---|
| Real estate mortgage | $ 10,422,018 | $ - | $ 10,422,018 | $ 1,863,689,882 | $ 1,874,111,900 | $ - |
| Production and intermediate term | 852,241 | 5 | 852,246 | 299,811,704 | 300,663,950 | 5 |
| Processing and marketing | 3,001,719 | - | 3,001,719 | 107,073,734 | 110,075,453 | - |
| Farm-related business | 192,587 | - | 192,587 | 33,069,461 | 33,262,048 | - |
| Loans to cooperatives | 232,633 | - | 232,633 | 18,124,155 | 18,356,788 | - |
| Communication | - | - | - | 21,489,321 | 21,489,321 | - |
| Water and waste-water | - | - | - | 12,772,217 | 12,772,217 | - |
| Energy | - | - | - | 6,416,581 | 6,416,581 | - |
| Agricultural export finance | - | - | - | 6,313,860 | 6,313,860 | - |
| Rural residential real estate | 83,562 | - | 83,562 | 867,228 | 950,790 | - |
| Mission-related investments | - | - | - | 694,829 | 694,829 | - |
| Total | $ 14,784,760 | $ 5 | $ 14,784,765 | $ 2,370,322,972 | $ 2,385,107,737 | $ 5 |

| December 31, 2023 | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total Loans | Recorded Investment >90 Days and Accruing |
|---|---|---|---|---|---|---|
| Real estate mortgage | $ 6,029,423 | $ - | $ 6,029,423 | $ 1,835,278,793 | $ 1,841,308,216 | $ - |
| Production and intermediate term | 82,713 | 227,146 | 309,859 | 320,278,813 | 320,588,672 | 5 |
| Processing and marketing | - | - | - | 91,855,671 | 91,855,671 | - |
| Farm-related business | - | - | - | 44,182,696 | 44,182,696 | - |
| Loans to cooperatives | - | - | - | 19,300,676 | 19,300,676 | - |
| Communication | - | - | - | 20,490,514 | 20,490,514 | - |
| Water and waste-water | - | - | - | 14,902,097 | 14,902,097 | - |
| Energy | - | - | - | 5,587,816 | 5,587,816 | - |
| Agricultural export finance | - | - | - | 5,106,807 | 5,106,807 | - |
| Rural residential real estate | 93,892 | - | 93,892 | 908,473 | 1,002,365 | - |
| Mission-related investments | - | - | - | 744,639 | 744,639 | - |
| Total | $ 6,206,028 | $ 227,146 | $ 6,433,174 | $ 2,358,636,995 | $ 2,365,070,169 | $ 5 |

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**

There were no loan modifications granted to borrowers experiencing financial difficulty at September 30, 2024. There were no loans to borrowers experiencing financial difficulties that defaulted during the three and nine months ended September 30, 2024, and received a modification in the twelve months before default.

There were no additional commitments to lend to borrowers experiencing financial difficulty whose loans have been modified during the nine months ended September 30, 2024, and during the year ended December 2023.

For the three and nine months ended September 30, 2023, the following table shows the amortized cost basis at the end of the respective reporting period for loan modifications granted to borrowers experiencing financial difficulty, disaggregated by loan type and type of modification granted.

| | Term Extension |
|---|---|
| Production and intermediate-term | $ 296,027 |

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty as of the three and nine months ended September 30, 2023 was $5,560. There was no financial effect of the modification made to borrowers experiencing financial difficulty during 2023.

The following table sets forth an aging analysis of loans to borrowers experiencing financial difficulty that were modified on or after January 1, 2023, the date of adoption of CECL, through September 30, 2023:

| | Payment Status of Loans Modified in the Past 12 Months | | |
|---|---|---|---|
| | Current | 30-89 Days Past Due | 90 Days or More Past Due |
| Production and intermediate-term | $ 296,027 | $ - | $ - |

**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. 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 established more restrictive lending limits.

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

| | Real estate mortgage | Production and intermediate-term | Agribusiness | Communications | Energy | Water and waste water | Rural Residential Real Estate | International | Mission-related investments | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Allowance for credit losses on loans:** | | | | | | | | | | |
| Balance at June 30, 2024 | $ 2,015,529 | $ 808,832 | $ 161,318 | $ 17,009 | $ 111,238 | $ 13,847 | $ 1,042 | $ 6,245 | $ 755 | $ 3,135,815 |
| Provision for credit losses/(Credit loss reversal) | 555,345 | (144,587) | 60,565 | 12,479 | 1,870 | 3,679 | 263 | 2,419 | 199 | 492,232 |
| Balance at September 30, 2024 | 2,570,874 | 664,245 | 221,883 | 29,488 | 113,108 | 17,526 | 1,305 | 8,664 | 954 | 3,628,047 |
| **Allowance for credit losses on unfunded commitments:** | | | | | | | | | | |
| Balance at June 30, 2024 | 3,609 | 90,912 | 69,790 | 1,951 | - | 212 | - | 1,801 | - | 168,275 |
| Provision for unfunded commitments | (898) | (30,215) | (3,978) | 1,040 | - | 10 | - | (143) | - | (34,184) |
| Balance at September 30, 2024 | 2,711 | 60,697 | 65,812 | 2,991 | - | 222 | - | 1,658 | - | 134,091 |
| **Total allowance for credit losses** | $ 2,573,585 | $ 724,942 | $ 287,695 | $ 32,479 | $ 113,108 | $ 17,748 | $ 1,305 | $ 10,322 | $ 954 | $ 3,762,138 |

| | Real estate mortgage | Production and intermediate-term | Agribusiness | Communications | Energy | Water and waste water | Rural Residential Real Estate | International | Mission-related investments | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Allowance for credit losses on loans:** | | | | | | | | | | |
| Balance at December 31, 2023 | $ 1,816,277 | $ 289,199 | $ 153,176 | $ 20,152 | $ 109,309 | $ 14,606 | $ 985 | $ 5,486 | $ 732 | $ 2,409,922 |
| Recoveries | - | 41,428 | - | - | - | - | - | - | - | 41,428 |
| Provision for credit losses/(Credit loss reversal) | 754,597 | 333,618 | 68,707 | 9,336 | 3,799 | 2,920 | 320 | 3,178 | 222 | 1,176,697 |
| Balance at September 30, 2024 | 2,570,874 | 664,245 | 221,883 | 29,488 | 113,108 | 17,526 | 1,305 | 8,664 | 954 | 3,628,047 |
| **Allowance for credit losses on unfunded commitments:** | | | | | | | | | | |
| Balance at December 31, 2023 | 723 | 97,550 | 23,745 | 718 | - | 112 | - | 4,451 | - | 127,299 |
| Provision for unfunded commitments | 1,988 | (36,853) | 42,067 | 2,273 | - | 110 | - | (2,793) | - | 6,792 |
| Balance at September 30, 2024 | 2,711 | 60,697 | 65,812 | 2,991 | - | 222 | - | 1,658 | - | 134,091 |
| **Total allowance for credit losses** | $ 2,573,585 | $ 724,942 | $ 287,695 | $ 32,479 | $ 113,108 | $ 17,748 | $ 1,305 | $ 10,322 | $ 954 | $ 3,762,138 |

| | Real estate mortgage | Production and intermediate-term | Agribusiness | Communications | Energy | Water and waste water | Rural Residential Real Estate | International | Mission-related investments | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Allowance for credit losses on loans: | | | | | | | | | | |
| Balance at June 30, 2023 | $ 1,940,873 | $ 338,610 | $ 2,244,400 | $ 22,480 | $ 109,865 | $ 8,882 | $ 1,105 | $ 6,684 | $ 808 | $ 4,673,707 |
| Recoveries | - | 10,509 | - | - | - | - | - | - | - | 10,509 |
| Provision for loan losses (Credit loss reversal) | (112,424) | (50,616) | (2,108,487) | (211) | (458) | (748) | (97) | (733) | (55) | (2,273,829) |
| Balance at September 30, 2023 | 1,828,449 | 298,503 | 135,913 | 22,269 | 109,407 | 8,134 | 1,008 | 5,951 | 753 | 2,410,387 |
| Allowance for credit losses on unfunded commitments: | | | | | | | | | | |
| Balance at June 30, 2023 | 57,158 | 36,498 | - | - | - | - | - | - | - | 93,656 |
| Provision for unfunded commitments | (2,418) | (4,595) | - | - | - | - | - | - | - | (7,013) |
| Balance at September 30, 2023 | 54,740 | 31,903 | - | - | - | - | - | - | - | 86,643 |
| Total allowance for credit losses | $ 1,883,189 | $ 330,406 | $ 135,913 | $ 22,269 | $ 109,407 | $ 8,134 | $ 1,008 | $ 5,951 | $ 753 | $ 2,497,030 |

| | Real estate mortgage | Production and intermediate-term | Agribusiness | Communications | Energy | Water and waste water | Rural Residential Real Estate | International | Mission-related investments | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Allowance for credit losses on loans: | | | | | | | | | | |
| Balance at December 31, 2022 | $ 1,579,691 | $ 628,543 | $ 712,761 | $ 14,214 | $ 105,928 | $ 6,166 | $ 935 | $ 3,024 | $ 700 | $ 3,051,962 |
| Cumulative effect of a change in accounting principle | 2,027,349 | (291,909) | - | - | - | - | - | - | - | 1,735,440 |
| Balance at January 1, 2023 | 3,607,040 | 336,634 | 712,761 | 14,214 | 105,928 | 6,166 | 935 | 3,024 | 700 | 4,787,402 |
| Recoveries | - | 10,509 | - | - | - | - | - | - | - | 10,509 |
| Provision for loan losses (Credit loss reversal) | (1,778,591) | (48,640) | (576,848) | 8,055 | 3,479 | 1,968 | 73 | 2,927 | 53 | (2,387,524) |
| Balance at September 30, 2024 | 1,828,449 | 298,503 | 135,913 | 22,269 | 109,407 | 8,134 | 1,008 | 5,951 | 753 | 2,410,387 |
| Allowance for credit losses on unfunded commitments: | | | | | | | | | | |
| Balance at December 31, 2022 | 53,032 | 150,360 | - | - | - | - | - | - | - | 203,392 |
| Cumulative effect of a change in accounting principle | 65,109 | (94,813) | - | - | - | - | - | - | - | (29,704) |
| Balance at January 1, 2023 | 118,141 | 55,547 | - | - | - | - | - | - | - | 173,688 |
| Provision for unfunded commitments | (63,401) | (23,644) | - | - | - | - | - | - | - | (87,045) |
| Balance at September 30, 2023 | 54,740 | 31,903 | - | - | - | - | - | - | - | 86,643 |
| Total allowance for credit losses | $ 1,883,189 | $ 330,406 | $ 135,913 | $ 22,269 | $ 109,407 | $ 8,134 | $ 1,008 | $ 5,951 | $ 753 | $ 2,497,030 |

The allowance for credit losses increased $1,218,125 to $3,628,047 at September 30, 2024, as compared to $2,409,922 at December 31, 2023. This is due to a modest increase in loan volume and risk rating downgrades of a few loans.

## NOTE 4 —LEASES:

The components of lease expense were as follows:

| | | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|---|
| | **Classification** | **September 30, 2024** | September 30, 2023 | **September 30, 2024** | September 30, 2023 |
| Operating lease cost | Right-of-use asset | **$ 54,602** | $ 60,678 | **$ 312,276** | $ 200,718 |
| Short-term lease cost | | **5,450** | 5,400 | **14,450** | 47,450 |
| Finance lease cost: | | | | | |
| Amortization of right-of-use assets | | **2,940** | (4,593) | **(139,649)** | (32,534) |
| Net lease cost | | **$ 62,992** | $ 61,485 | **$ 187,077** | $ 215,634 |

Other information related to leases was as follows:

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|
| | **September 30, 2024** | September 30, 2023 | **September 30, 2024** | September 30, 2023 |
| Cash paid for amounts included in the measurement of lease liabilities: | | | | |
| Operating cash flows from operating leases | **$ 57,542** | $ 56,085 | **$ 172,627** | $ 168,184 |
| Right-of-use assets obtained in exchange for lease obligations: | | | | |
| Operating leases | **$ 54,602** | $ 60,678 | **$ 312,276** | $ 200,718 |

Lease term and discount rate are as follows:

| | **September 30, 2024** | December 31, 2023 |
|---|---|---|
| Weighted average remaining lease term in years | | |
| Operating leases | **6.50** | 6.90 |
| Weighted average discount rate | | |
| Operating leases | **5.83%** | 5.53% |

Future minimum lease payments under non-cancellable leases as of September 30, 2024, were as follows:

| | **Operating Leases** |
|---|---|
| 2024 | **$ 23,266** |
| 2025 | **186,381** |
| 2026 | **117,646** |
| 2027 | **72,003** |
| 2028 | **96,400** |
| Thereafter | **316,498** |
| Total lease payments | **$ 812,194** |

## NOTE 5 — 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 the 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**

| Risk-adjusted: | Regulatory Minimums wih Buffer | As of September 30, 2024 |
|---|---|---|
| Common equity tier 1 ratio | 7.00% | **12.80%** |
| Tier 1 capital ratio | 8.50% | **12.80%** |
| Total capital ratio | 10.50% | **12.96%** |
| Permanent capital ratio | 7.00% | **12.82%** |
| **Non-risk-adjusted:** | | |
| Tier 1 leverage ratio | 5.00% | **10.84%** |
| UREE leverage ratio | 1.50% | **8.53%** |

The components of the Association's regulatory capital ratios, based on 90 day average balances, as of September 30, 2024:

| | Common equity tier 1 ratio | Tier 1 capital ratio | Total capital ratio | Permanent capital ratio |
|---|---|---|---|---|
| **Numerator:** | | | | |
| Unallocated retained earnings | $ 140,673,501 | $ 140,673,501 | $ 140,673,501 | $ 140,673,501 |
| Paid-in capital | 47,596,495 | 47,596,495 | 47,596,495 | 47,596,495 |
| Common Cooperative Equities: | | | | |
| Statutory minimum purchased borrower stock | 4,049,386 | 4,049,386 | 4,049,386 | 4,049,386 |
| Allocated equities: | | | | |
| Allocated equities held ≥7 | 52,244,352 | 52,244,352 | 52,244,352 | 52,244,352 |
| Nonqualified allocated equities not subject to retirement | 64,937,342 | 64,937,342 | 64,937,342 | 64,937,342 |
| Allowance for loan losses and reserve for credit losses subject to certain limitations | - | - | 3,334,626 | - |
| Regulatory Adjustments and Deductions: | | | | |
| Amount of allocated investments in other System institutions | (42,368,634) | (42,368,634) | (42,368,634) | (42,368,634) |
| Other regulatory required deductions | (2,636,617) | (2,636,617) | (2,636,617) | (2,636,617) |
| | **$ 264,495,825** | **$ 264,495,825** | **$ 267,830,451** | **$ 264,495,825** |
| **Denominator:** | | | | |
| Risk-adjusted assets excluding allowance | $ 2,111,864,164 | $ 2,111,864,164 | $ 2,111,864,164 | $ 2,111,864,164 |
| Regulatory Adjustments and Deductions: | | | | |
| Regulatory deductions included in total capital | (45,005,251) | (45,005,251) | (45,005,251) | (45,005,251) |
| Allowance for loan losses | - | - | - | (3,168,630) |
| | **$ 2,066,858,913** | **$ 2,066,858,913** | **$ 2,066,858,913** | **$ 2,063,690,283** |
| **Calculated Ratio** | **12.80%** | **12.80%** | **12.96%** | **12.82%** |

| | Tier 1 leverage ratio | UREE leverage ratio |
|---|---|---|
| **Numerator:** | | |
| Unallocated retained earnings | $ 140,673,501 | $ 140,673,501 |
| Paid-in capital | 47,596,495 | 47,596,495 |
| Common Cooperative Equities: | | |
| Statutory minimum purchased borrower stock | 4,049,386 | - |
| Allocated equities: | | |
| Allocated equities held ≥7 | 52,244,352 | - |
| Nonqualified allocated equities not subject to retirement | 64,937,342 | 64,937,342 |
| Regulatory Adjustments and Deductions: | | |
| Amount of allocated investments in other System institutions | (42,368,634) | (42,368,634) |
| Other regulatory required deductions | (2,636,617) | (2,636,617) |
| | **$ 264,495,825** | **$ 208,202,087** |
| **Denominator:** | | |
| Total Assets | $ 2,490,033,432 | $ 2,490,033,432 |
| Regulatory Adjustments and Deductions: | | |
| Regulatory deductions included in tier 1 capital | (49,317,047) | (49,317,047) |
| | **$ 2,440,716,385** | **$ 2,440,716,385** |
| **Calculated Ratio** | **10.84%** | **8.53%** |

| | **September 30, 2024** | December 31, 2023 |
|---|---|---|
| Capital stock and participation certificates | **$ 4,063,250** | $ 4,623,975 |
| Additional paid-in-capital | **47,596,495** | 47,596,495 |
| Accumulated other comprehensive loss | **763,658** | 822,824 |
| Retained earnings | **268,077,585** | 231,350,788 |
| Total Capital | **$ 320,500,988** | $ 284,394,082 |

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 reclassified into "Salaries and employee benefits" in the Consolidated Statement of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income (loss) for the nine months ended September 30:

| | **2024** | 2023 |
|---|---|---|
| Accumulated other comprehensive income at January 1 | **$ 822,824** | $ 861,603 |
| Amortization of prior service credit included in salaries and employee benefits | **(16,288)** | (16,287) |
| Amortization of actuarial gain included in salaries and employee benefits | **(42,878)** | (41,214) |
| Other comprehensive loss, net of tax | **(59,166)** | (57,501) |
| **Accumulated other comprehensive income at September 30** | **$ 763,658** | $ 804,102 |

## NOTE 6 — INCOME TAXES:

The Association 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. The Association operates 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 dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the Association and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. The Association has no valuation allowance on its deferred tax assets because management estimates full utilization of these assets.

## NOTE 7 — 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 non-recurring basis for each of the fair value hierarchy values are summarized below:

| **September 30, 2024** | **Fair Value Measurement Using** | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** |
| **Assets:** | | | |
| **Loans** | **$ -** | **$ -** | **$ 146,481** |

| December 31, 2023 | Fair Value Measurement Using | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| Assets: | | | |
| Loans | $ - | $ - | $ 191,449 |

### Uncertainty of Fair Value Measurements

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

### 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 represent 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.

*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 the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy. As of September 30, 2024, the Association had no other property owned to report.

## NOTE 8 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs on certain healthcare benefits to qualifying retired employees for the three and nine months ended September 30:

| | **Other Benefits** | |
|---|---|---|
| **Three months ended September 30:** | **2024** | 2023 |
| Service cost | **$ 6,305** | $ 6,897 |
| Interest cost | **45,612** | 42,828 |
| Amortization of prior service credits | **(5,429)** | (5,429) |
| Amortization of net actuarial gain | **(14,293)** | (13,737) |
| **Net periodic benefit cost** | **$ 32,195** | $ 30,559 |

| | Other Benefits | |
|---|---|---|
| **NIne months ended September 30:** | **2024** | 2023 |
| Service cost | **$ 18,914** | $ 20,692 |
| Interest cost | **136,837** | 128,483 |
| Amortization of prior service credits | **(16,287)** | (16,287) |
| Amortization of net actuarial gain | **(42,878)** | (41,214) |
| **Net periodic benefit cost** | **$ 96,586** | $ 91,674 |

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2024, was $3,439,575 and is included in other liabilities on the Consolidated Balance Sheet.

The components of net periodic benefit cost are included in the line item "Salaries and employee benefits" in the Consolidated Statement of Comprehensive Income.

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 $190,269 to the district's defined benefit pension plan in 2024. As of September 30, 2024, $142,702 of contributions have been expensed. The Association does not anticipate additional contributions over $190,269 will be required in 2024.

## NOTE 9 — COMMITMENTS AND CONTINGENT LIABILITIES:

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

## NOTE 10 — SUBSEQUENT EVENTS:

On October 4, 2024, the Association's stockholders approved the merger of Heritage Land Bank, ACA, with and into Texas Farm Credit Services. In a separate meeting held on October 4, 2024, the voting stockholders of Heritage Land Bank, ACA, also approved the merger. Pending final approval by the Farm Credit Administration (FCA), the merger is scheduled to take place December 1, 2024. As of June 30, 2024, Heritage Land Bank, ACA, had approximately $713 million of total assets and serves customers in 16 North and East Texas counties. Both Texas Farm Credit Services and Heritage Land Bank, ACA, receive wholesale funding from the Farm Credit Bank of Texas.

The Association has evaluated subsequent events through November 7, 2024, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of this date.