# AgGeorgia Farm Credit, ACA

# SECOND QUARTER 2024

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**CERTIFICATION**

The undersigned certify that we have reviewed the June 30, 2024 quarterly report of AgGeorgia Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and 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.

James R. Crain
Chief Executive Officer

Brandie L. Thompson
Chief Financial Officer

Glee Smith
Chairwoman of the Board

August 8, 2024

## AgGeorgia Farm Credit, ACA

# Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of June 30, 2024. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of June 30, 2024, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of June 30, 2024.

James R. Crain
Chief Executive Officer

Brandie L. Thompson
Chief Financial Officer

August 8, 2024

# AgGeorgia Farm Credit, ACA

# Management's Discussion and Analysis of Financial Condition and Results of Operations

*(dollars in thousands)*

The following commentary reviews the financial condition and results of operations of AgGeorgia Farm Credit, ACA (Association) for the period ended June 30, 2024, with comparisons to prior periods. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2023 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

## LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including poultry, cotton, timber, peanuts and livestock. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on any single commodity.

The total loan volume of the Association as of June 30, 2024, was $1,490 million, an increase of $111 million as compared to $1,379 million at December 31, 2023. This increase in loan volume is primarily related to advances on operating loans and long-term real estate loans.

## ASSET QUALITY AND LOAN LOSS RESERVES

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans increased from $6,860 thousand at December 31, 2023, to $8,938 thousand at June 30, 2024. As a percent of total loans, nonaccrual loans were 0.60 percent and 0.50 percent at June 30, 2024 and December 31, 2023, respectively.

Association management maintains an allowance for credit losses (ACL) in an amount considered sufficient to absorb estimated current and expected credit losses over the financial assets expected life. The most significant component of the Association's ACL is the allowance for credit losses on loans (ACLL). The ACLL at June 30, 2024, was $5,452 thousand or 0.36 percent of total loans compared to $4,723 thousand or 0.34 percent of total loans at December 31, 2023, and is considered by management to be adequate to cover estimated current and expected losses within the loan portfolio. See further detail on the Association's ACL within the Association's Annual Report and discussion of significant provision for credit loss within the *Results of Operations* below.

## RESULTS OF OPERATIONS

The Association's primary source of funding is provided by AgFirst Farm Credit Bank (the Bank) in the form of notes payable. See *Funding Sources* section below for additional detail on this relationship. Prior to January 1, 2024, the rate applied to the notes payable to the Bank included the Association's allocation of technology and software services provided by the Bank. Effective January 1, 2024, the Bank amended the line of credit agreement to exclude the Association's allocation of costs for Bank-provided services from the Direct Note rate. The master service agreement was also amended to bill the Association for these services separately. This change had a minimal effect on the Association's net income but did result in a higher net interest margin as it effectively reclassifies the Association's technology and software costs paid to the Bank from interest expense to noninterest expense. If this amendment had been in effect during 2023, the Association would have had lower interest expense and corresponding higher noninterest expense of $862 thousand and $1,664 thousand for the three and six months ended June 30, 2023, respectively, as shown in the tables below.

| | For the three months ended | | | For the six months ended | | |
|---|---|---|---|---|---|---|
| | June 30, 2024 | June 30, 2023 | June 30, 2023* | June 30, 2024 | June 30, 2023 | June 30, 2023* |
| Interest Income | $ 24,252 | $ 19,478 | $ 19,478 | $ 46,324 | $ 37,120 | $ 37,120 |
| Interest Expense | 12,086 | 9,048 | 8,186 | 22,708 | 16,595 | 14,931 |
| Net Interest Income | 12,166 | 10,430 | 11,292 | 23,616 | 20,525 | 22,189 |
| Provision for Credit Losses | (7) | (9) | (9) | 892 | 627 | 627 |
| Noninterest Income | 4,175 | 2,837 | 2,837 | 7,409 | 5,228 | 5,228 |
| Noninterest Expense | 6,749 | 6,062 | 6,924 | 13,687 | 12,263 | 13,927 |
| Net income | $ 9,599 | $ 7,214 | $ 7,214 | $ 16,446 | $ 12,863 | $ 12,863 |
| Net Interest Margin | 3.43% | 3.29% | 3.56% | 3.41% | 3.33% | 3.60% |
| Operating Efficiency Ratio | 41.30% | 45.68% | 48.99% | 44.12% | 47.60% | 50.78% |

**reflects the pro-forma results if the amended notes payable rate had been in effect during 2023*

***For the three months ended June 30, 2024***

Net income for the three months ended June 30, 2024, was $9,599 thousand, an increase of $2,385 thousand as compared to net income of $7,214 thousand for the same period ended in 2023. This increase is a combination of higher interest income from loan growth and rising rates, and an increase in noninterest income from financially related services. These increases were offset by higher interest expense from loan growth and rising direct note rates in 2024 as compared to 2023.

For the three months ended June 30, 2024, net interest income was $12,166 thousand, and the net interest margin was 3.43 percent. After adjusting the prior year for the notes payable rate amendment discussed above, net interest income was $11,292 thousand, an increase of $874 thousand, and the net interest margin was 3.56 percent, a decrease of 13 basis points for the three months ended June 30, 2024.

The reversal of credit losses for the three months ended June 30, 2024, was $7 thousand, a decrease of $2 thousand from the reversal of credit losses of $9 thousand for the same period ended during the prior year.

Noninterest income increased $1,338 thousand to $4,175 thousand for the three months ended June 30, 2024 compared with the three months ended June 30, 2023 primarily due to increased patronage refunds, loan fees, income from financially related services and Farm Credit System Insurance Fund refunds.

For the three months ended June 30, 2024, noninterest expense was $6,749 thousand. After adjusting the prior year for the notes payable rate amendment discussed above, noninterest expense was $6,924 thousand, a decrease of $175 thousand for the three months ended June 30, 2024.

***For the six months ended June 30, 2024***

Net income for the six months ended June 30, 2024, was $16,446 thousand, an increase of $3,583 thousand as compared to net income of $12,863 thousand for the same period ended in 2023. This increase is a combination of higher interest income from loan growth and rising rates, and an increase in noninterest income from financially related services. These increases were offset by higher interest expense from loan growth and rising direct note rates in 2024 as compared to 2023.

For the six months ended June 30, 2024, net interest income was $23,616 thousand, and the net interest margin was 3.41 percent. After adjusting the prior year for the notes payable rate amendment discussed above, net interest income was $22,189 thousand, an increase of $1,427 thousand, and the net interest margin was 3.60 percent, a decrease of 19 basis points for the six months ended June 30, 2024.

The provision for credit losses for the six months ended June 30, 2024, was $892 thousand, an increase of $265 thousand from the provision for credit losses of $627 thousand for the same period ended during the prior year. This increase was the result of loan growth from June 30, 2023 through June 30, 2024.

Noninterest income increased $2,181 thousand to $7,409 thousand during the first six months of 2024 compared with the first six months of 2023 primarily due to increased patronage refunds, loan fees, income from financially related services and Farm Credit System Insurance Corporation Refund in 2024 as compared to 2023.

For the six months ended June 30, 2024, noninterest expense was $13,687 thousand. After adjusting the prior year for the notes payable rate amendment discussed above, noninterest expense was $13,927 thousand, a decrease of $240 thousand for the six months ended June 30, 2024. This year over year decrease is due to the reduction in Farm Credit System Insurance Corporation premiums.

## FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2024, was $1,232 million as compared to $1,114 million at December 31, 2023.

## CAPITAL RESOURCES

Total members' equity at June 30, 2024, was $291,151 thousand, an increase of $8,716 thousand from a total of $282,435 thousand at December 31, 2023. The increase is primarily related to year-to-date net income off set by revolvement of the 2016 qualified allocated surplus to member totaling $7,840 thousand during June 2024. Total capital stock and participation certificates were $5,029 thousand on June 30, 2024, compared to $4,912 thousand on December 31, 2023. This increase is attributed to the issuance of stock on new loans being greater than the retirement of stock on loans liquidated in the normal course of business.

FCA sets minimum regulatory capital requirements with a capital conservation buffer for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios.

The following sets forth the regulatory capital ratios:

| | Regulatory Minimum Including Buffer* | 6/30/24 | 12/31/23 | 6/30/23 |
|---|---|---|---|---|
| Permanent Capital Ratio | 7.00% | 17.97% | 19.02% | 20.46% |
| Common Equity Tier 1 (CET1) Capital Ratio | 7.00% | 17.90% | 18.95% | 20.39% |
| Tier 1 Capital ratio | 8.50% | 17.90% | 18.95% | 20.39% |
| Total Regulatory Capital Ratio | 10.50% | 18.31% | 19.33% | 20.72% |
| Tier 1 Leverage Ratio** | 5.00% | 18.40% | 19.39% | 20.61% |
| Unallocated Retained Earnings (URE) and URE Equivalents | 1.50% | 14.80% | 15.53% | 16.06% |

**Include full capital conservation buffers.*
***The Tier 1 Leverage Ratio must include a minimum of 1.50% of URE and URE equivalents.*

If the capital ratios fall below the minimum regulatory requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. For all periods presented, the Association exceeded minimum regulatory requirements for all of the ratios.

## REGULATORY MATTERS

On February 8, 2024, the FCA approved a final rule to amend its regulatory capital requirements to define and establish risk-weightings for High Volatility Commercial Real Estate (HVCRE) exposures by assigning a 150 percent risk-weighting to such exposures, instead of the current 100 percent to reflect their increased risk characteristics. The rule further ensures comparability between FCA's risk-weightings and the federal banking regulators, with deviations as appropriate to accommodate the different regulatory, operational and credit considerations of the Farm Credit System. The final rule excludes certain acquisition, development, and construction loans that do not present as much risk and therefore do not warrant the risk weight for HVCRE. In addition, the final rule adds an exclusion for loans originated less than $500,000. The final rule will become effective on January 1, 2025.

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

**NOTE**:  Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank.  Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia SC 29202.  Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*.  Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 478-987-8300 Ext. 113, writing Brandie Thompson, Chief Financial Officer, AgGeorgia Farm Credit, ACA, P.O. Box 1820, Perry, GA 31069, or accessing the website, *www.aggeorgia.com*.  The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

# AgGeorgia Farm Credit, ACA

# Consolidated Balance Sheets

| *(dollars in thousands)* | | June 30, 2024 | | December 31, 2023 |
|---|---|---|---|---|
| | | *(unaudited)* | | *(audited)* |
| **Assets** | | | | |
| Cash | **$** | **14** | $ | 93 |
| Loans | | **1,490,007** | | 1,378,546 |
| Allowance for credit losses on loans | | **(5,452)** | | (4,723) |
| Net loans | | **1,484,555** | | 1,373,823 |
| Loans held for sale | | **56** | | 72 |
| Accrued interest receivable | | **17,199** | | 16,634 |
| Equity investments in other Farm Credit institutions | | **22,041** | | 21,672 |
| Premises and equipment, net | | **18,984** | | 17,214 |
| Other property owned | | **—** | | 33 |
| Accounts receivable | | **5,569** | | 9,937 |
| Other assets | | **2,147** | | 1,959 |
| Total assets | **$** | **1,550,565** | $ | 1,441,437 |
| **Liabilities** | | | | |
| Notes payable to AgFirst Farm Credit Bank | **$** | **1,231,813** | $ | 1,114,204 |
| Accrued interest payable | | **4,162** | | 3,915 |
| Patronage refunds payable | | **1,568** | | 15,751 |
| Accounts payable | | **661** | | 2,207 |
| Advanced conditional payments | | **6,275** | | 12,298 |
| Other liabilities | | **14,935** | | 10,627 |
| Total liabilities | | **1,259,414** | | 1,159,002 |
| Commitments and contingencies (Note 6) | | | | |
| **Members' Equity** | | | | |
| Capital stock and participation certificates | | **5,029** | | 4,912 |
| Retained earnings | | | | |
| Allocated | | **40,432** | | 48,272 |
| Unallocated | | **245,595** | | 229,156 |
| Accumulated other comprehensive income | | **95** | | 95 |
| Total members' equity | | **291,151** | | 282,435 |
| Total liabilities and members' equity | **$** | **1,550,565** | $ | 1,441,437 |

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

## AgGeorgia Farm Credit, ACA

# Consolidated Statements of Comprehensive Income

*(unaudited)*

| *(dollars in thousands)* | For the Three Months Ended June 30, 2024 | For the Three Months Ended June 30, 2023 | For the Six Months Ended June 30, 2024 | For the Six Months Ended June 30, 2023 |
|---|---|---|---|---|
| **Interest Income** | | | | |
| Loans | **$ 24,252** | $ 19,478 | **$ 46,324** | $ 37,120 |
| **Interest Expense** | **12,086** | 9,048 | **22,708** | 16,595 |
| Net interest income | **12,166** | 10,430 | **23,616** | 20,525 |
| Provision for (reversal of) allowance for credit losses | **(7)** | (9) | **892** | 627 |
| Net interest income after provision for (reversal of) allowance for credit losses | **12,173** | 10,439 | **22,724** | 19,898 |
| **Noninterest Income** | | | | |
| Loan fees | **481** | 199 | **885** | 431 |
| Fees for financially related services | **51** | 20 | **85** | 46 |
| Patronage refunds from other Farm Credit institutions | **3,009** | 2,573 | **5,629** | 4,748 |
| Gains (losses) on sales of rural home loans, net | **101** | 19 | **172** | 19 |
| Gains (losses) on sales of premises and equipment, net | **140** | 22 | **140** | (22) |
| Gains (losses) on other transactions | **48** | 4 | **142** | (1) |
| Insurance Fund refunds | **345** | — | **345** | — |
| Other noninterest income | **—** | — | **11** | 7 |
| Total noninterest income | **4,175** | 2,837 | **7,409** | 5,228 |
| **Noninterest Expense** | | | | |
| Salaries and employee benefits | **3,824** | 3,696 | **7,876** | 7,884 |
| Occupancy and equipment | **288** | 243 | **544** | 458 |
| Insurance Fund premiums | **281** | 431 | **544** | 835 |
| Purchased services | **1,107** | 290 | **2,213** | 508 |
| Data processing | **130** | 97 | **213** | 183 |
| Other operating expenses | **1,118** | 1,303 | **2,299** | 2,392 |
| (Gains) losses on other property owned, net | **1** | 2 | **(2)** | 3 |
| Total noninterest expense | **6,749** | 6,062 | **13,687** | 12,263 |
| **Net income** | **$ 9,599** | $ 7,214 | **$ 16,446** | $ 12,863 |
| Other comprehensive income | **—** | — | **—** | — |
| **Comprehensive income** | **$ 9,599** | $ 7,214 | **$ 16,446** | $ 12,863 |

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

## AgGeorgia Farm Credit, ACA

# Consolidated Statements of Changes in Members' Equity

*(unaudited)*

| *(dollars in thousands)* | Capital Stock and Participation Certificates | Retained Earnings Allocated | Retained Earnings Unallocated | Accumulated Other Comprehensive Income | Total Members' Equity |
|---|---|---|---|---|---|
| Balance at December 31, 2022 | $ 4,730 | $ 56,491 | $ 215,103 | $ 142 | $ 276,466 |
| Cumulative effect of change in accounting principle | | | 2,034 | | 2,034 |
| Comprehensive income | | | 12,863 | | 12,863 |
| Capital stock/participation certificates issued/(retired), net | 79 | | | | 79 |
| Retained earnings retired | | (8,226) | | | (8,226) |
| Balance at June 30, 2023 | $ 4,809 | $ 48,265 | $ 230,000 | $ 142 | $ 283,216 |
| **Balance at December 31, 2023** | **$ 4,912** | **$ 48,272** | **$ 229,156** | **$ 95** | **$ 282,435** |
| **Comprehensive income** | | | **16,446** | | **16,446** |
| **Capital stock/participation certificates issued/(retired), net** | **117** | | | | **117** |
| **Retained earnings retired** | | **(7,840)** | | | **(7,840)** |
| **Patronage distribution adjustment** | | | **(7)** | | **(7)** |
| **Balance at June 30, 2024** | **$ 5,029** | **$ 40,432** | **$ 245,595** | **$ 95** | **$ 291,151** |

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

# AgGeorgia Farm Credit, ACA

# Notes to the Consolidated Financial Statements

*(dollars in thousands, except as noted)*
*(unaudited)*

**Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements**

***Organization***
The accompanying financial statements include the accounts of AgGeorgia Farm Credit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). Descriptions of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2023, are contained in the 2023 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

***Basis of Presentation***
In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair statement of results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed.

Certain amounts in the prior period's consolidated financial statements have been reclassified to conform to the current period presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The results of any interim period are not necessarily indicative of those to be expected for a full year.

***Significant Accounting Policies***
The Association's accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition.

Management has made significant estimates in several areas, including loans and allowance for credit losses (Note 2, *Loans and Allowance for Credit Losses*), and financial instruments (Note 5, *Fair Value Measurement*). Actual results could differ from those estimates.

For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

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

## Note 2 — Loans and Allowance for Credit Losses

A summary of loans outstanding at period end follows:

| | June 30, 2024 | December 31, 2023 |
|---|---|---|
| Real estate mortgage | $ 1,179,975 | $ 1,098,808 |
| Production and intermediate-term | 236,677 | 203,988 |
| Agribusiness: | | |
| Loans to cooperatives | 1,589 | 1,818 |
| Processing and marketing | 36,203 | 37,900 |
| Farm-related business | 5,967 | 6,698 |
| Rural infrastructure: | | |
| Communication | 6,554 | 6,667 |
| Power and water/waste disposal | 2,397 | 2,756 |
| Rural residential real estate | 18,578 | 18,024 |
| Other: | | |
| International | 2,067 | 1,887 |
| Total loans | $ 1,490,007 | $ 1,378,546 |

A substantial portion of the Association's lending activities is collateralized, and exposure to credit loss associated with lending activities is reduced accordingly. The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations.

The following table shows loans, classified under the FCA Uniform Loan Classification System, as a percentage of total loans by loan type as of:

| | June 30, 2024 | December 31, 2023 |
|---|---|---|
| **Real estate mortgage:** | | |
| Acceptable | 97.77% | 98.76% |
| OAEM | 1.63 | 0.87 |
| Substandard/doubtful/loss | 0.60 | 0.37 |
| | 100.00% | 100.00% |
| **Production and intermediate-term:** | | |
| Acceptable | 93.07% | 96.39% |
| OAEM | 3.96 | 1.01 |
| Substandard/doubtful/loss | 2.97 | 2.60 |
| | 100.00% | 100.00% |
| **Agribusiness:** | | |
| Acceptable | 95.88% | 97.46% |
| OAEM | 3.99 | 2.54 |
| Substandard/doubtful/loss | 0.13 | – |
| | 100.00% | 100.00% |
| **Rural infrastructure:** | | |
| Acceptable | 100.00% | 100.00% |
| OAEM | – | – |
| Substandard/doubtful/loss | – | – |
| | 100.00% | 100.00% |
| **Rural residential real estate:** | | |
| Acceptable | 98.49% | 98.80% |
| OAEM | 1.16 | 1.20 |
| Substandard/doubtful/loss | 0.35 | – |
| | 100.00% | 100.00% |
| **Other:** | | |
| Acceptable | 100.00% | 100.00% |
| OAEM | – | – |
| Substandard/doubtful/loss | – | – |
| | 100.00% | 100.00% |
| **Total loans:** | | |
| Acceptable | 96.99% | 98.37% |
| OAEM | 2.05 | 0.95 |
| Substandard/doubtful/loss | 0.96 | 0.68 |
| | 100.00% | 100.00% |

Accrued interest receivable on loans of $17,199 and $16,634 at June 30, 2024 and December 31, 2023, respectively, has been excluded from the amortized cost of loans and reported separately in the Consolidated Balance Sheets.

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

| | June 30, 2024 | | | | | |
|---|---|---|---|---|---|---|
| | 30 Through 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 | 90 Days or More Past Due and Accruing |
| Real estate mortgage | $ 3,611 | $ 2,203 | $ 5,814 | $ 1,174,161 | $ 1,179,975 | $ – |
| Production and intermediate-term | 894 | 3,805 | 4,699 | 231,978 | 236,677 | – |
| Agribusiness | 96 | – | 96 | 43,663 | 43,759 | – |
| Rural infrastructure | – | – | – | 8,951 | 8,951 | – |
| Rural residential real estate | 90 | 66 | 156 | 18,422 | 18,578 | – |
| Other | – | – | – | 2,067 | 2,067 | – |
| Total | $ 4,691 | $ 6,074 | $ 10,765 | $ 1,479,242 | $ 1,490,007 | $ – |

| | December 31, 2023 | | | | | |
|---|---|---|---|---|---|---|
| | 30 Through 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 | 90 Days or More Past Due and Accruing |
| Real estate mortgage | $ 4,647 | $ 968 | $ 5,615 | $ 1,093,193 | $ 1,098,808 | $ – |
| Production and intermediate-term | 1,705 | 839 | 2,544 | 201,444 | 203,988 | – |
| Agribusiness | 92 | – | 92 | 46,324 | 46,416 | – |
| Rural infrastructure | – | – | – | 9,423 | 9,423 | – |
| Rural residential real estate | 260 | – | 260 | 17,764 | 18,024 | – |
| Other | – | – | – | 1,887 | 1,887 | – |
| Total | $ 6,704 | $ 1,807 | $ 8,511 | $ 1,370,035 | $ 1,378,546 | $ – |

The following tables provide the amortized cost for nonaccrual loans with and without a related allowance for credit losses on loans as of:

| | June 30, 2024 | | |
|---|---|---|---|
| **Nonaccrual loans:** | Amortized Cost with Allowance | Amortized Cost without Allowance | Total |
| Real estate mortgage | $ 78 | $ 4,138 | $ 4,216 |
| Production and intermediate-term | 739 | 3,862 | 4,601 |
| Agribusiness | – | 55 | 55 |
| Rural residential real estate | – | 66 | 66 |
| Total | $ 817 | $ 8,121 | $ 8,938 |

| | December 31, 2023 | | |
|---|---|---|---|
| **Nonaccrual loans:** | Amortized Cost with Allowance | Amortized Cost without Allowance | Total |
| Real estate mortgage | $ 337 | $ 1,558 | $ 1,895 |
| Production and intermediate-term | 440 | 4,526 | 4,966 |
| Total | $ 777 | $ 6,084 | $ 6,861 |

The Association recognized $187 and $308 of interest income on nonaccrual loans during the three months ended June 30, 2024 and June 30, 2023, respectively. The Association recognized $262 and $517 of interest income on nonaccrual loans during the six months ended June 30, 2024 and June 30, 2023, respectively.

Reversals of interest income on loans that moved to nonaccrual status were not material for the three and six months ended June 30, 2024 and June 30, 2023.

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

| | June 30, 2024 |
|---|---|
| **Allowance for Credit Losses on Loans:** | |
| Balance at March 31, 2024 | $ 5,433 |
| Charge-offs | (64) |
| Recoveries | 10 |
| Provision for loan losses | 73 |
| Balance at June 30, 2024 | $ 5,452 |
| | |
| **Allowance for Credit Losses on Unfunded Commitments:** | |
| Balance at March 31, 2024 | $ 682 |
| Provision for unfunded commitments | (80) |
| Balance at June 30, 2024 | $ 602 |
| **Total allowance for credit losses** | $ 6,054 |
| | |
| **Allowance for Credit Losses on Loans:** | |
| Balance at December 31, 2023 | $ 4,723 |
| Charge-offs | (147) |
| Recoveries | 81 |
| Provision for loan losses | 795 |
| Balance at June 30, 2024 | $ 5,452 |
| | |
| **Allowance for Credit Losses on Unfunded Commitments:** | |
| Balance at December 31, 2023 | $ 505 |
| Provision for unfunded commitments | 97 |
| Balance at June 30, 2024 | $ 602 |
| **Total allowance for credit losses** | $ 6,054 |

| **Allowance for Credit Losses on Loans:** | June 30, 2023 |
|---|---|
| Balance at March 31, 2023 | $ 4,225 |
| Charge-offs | (81) |
| Recoveries | 79 |
| Provision for loan losses | (18) |
| Balance at June 30, 2023 | $ 4,205 |
| | |
| **Allowance for Credit Losses on Unfunded Commitments:** | |
| Balance at March 31, 2023 | $ 99 |
| Provision for unfunded commitments | 9 |
| Balance at June 30, 2023 | $ 108 |
| **Total allowance for credit losses** | $ 4,313 |
| | |
| **Allowance for Credit Losses on Loans:** | |
| Balance at December 31, 2022 | $ 5,767 |
| Cumulative effect of a change in accounting principle | (2,113) |
| Balance at January 1, 2023 | $ 3,654 |
| Charge-offs | (140) |
| Recoveries | 93 |
| Provision for loan losses | 598 |
| Balance at June 30, 2023 | $ 4,205 |
| | |
| **Allowance for Credit Losses on Unfunded Commitments:** | |
| Balance at December 31, 2022 | $ – |
| Cumulative effect of a change in accounting principle | 79 |
| Balance at January 1, 2023 | $ 79 |
| Provision for unfunded commitments | 29 |
| Balance at June 30, 2023 | $ 108 |
| **Total allowance for credit losses** | $ 4,313 |

Loan modifications may be granted to borrowers experiencing financial difficulty. Qualifying disclosable modifications are one, or a combination of, principal forgiveness, interest rate reduction, or a term or payment extension. Covenant waivers and modifications of contingent acceleration clauses are not considered term extensions. Modified loans to borrowers experiencing financial difficulty and activity on these loans were not material during the three and six months ended June 30, 2024. There were no material commitments to lend to borrowers experiencing financial difficulty whose loans have been modified at June 30, 2024.

The Association had loans held for sale of $56 and $72 at June 30, 2024 and December 31, 2023, respectively. Such loans are carried at the lower of cost or fair value.

## Note 3 — Investments

***Equity Investments in Other Farm Credit System Institutions***

Equity investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are carried at cost and evaluated for impairment based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 3.94 percent of the issued stock and allocated retained earnings of the Bank as of June 30, 2024 net of any reciprocal investment. As of that date, the Bank's assets totaled $45.1 billion and shareholders' equity totaled $1.8 billion. The Bank's earnings were 132 million for the first six months of 2024. In addition, the Association held investments of $1,285 related to other Farm Credit institutions.

## Note 4 — Members' Equity

***Accumulated other Comprehensive Income (AOCI)***

**Changes in Accumulated Other Comprehensive Income by Component** *(a)*

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2024** | **2023** | **2024** | **2023** |
| **Employee Benefit Plans:** | | | | |
| Balance at beginning of period | $ 95 | $ 142 | $ 95 | $ 142 |
| Other comprehensive income before reclassifications | – | – | – | – |
| Amounts reclassified from AOCI | – | – | – | – |
| Net current period other comprehensive income | – | – | – | – |
| Balance at end of period | $ 95 | $ 142 | $ 95 | $ 142 |

**Reclassifications Out of Accumulated Other Comprehensive Income** *(b)*

| | Three Months Ended June 30, | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|
| | **2024** | **2023** | **2024** | **2023** | **Income Statement Line Item** |
| **Defined Benefit Pension Plans:** | | | | | |
| Periodic pension costs | $ – | $ – | $ – | $ – | Salaries and employee benefits |
| Net amounts reclassified | $ – | $ – | $ – | $ – | |

*(a) Amounts in parentheses indicate debits to AOCI.*
*(b) Amounts in parentheses indicate debits to profit/loss.*

## Note 5 — Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

The classifications within the fair value hierarchy are as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability.

Level 3 inputs are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the latest Annual Report to Shareholders.

There were no Level 3 assets or liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. The following tables summarize assets measured at fair value at period end.

| | June 30, 2024 | | | |
|---|---|---|---|---|
| | Fair Value Measurement Using | | | Total Fair |
| | Level 1 | Level 2 | Level 3 | Value |
| **Recurring assets** | | | | |
| Assets held in trust funds | $ 1,824 | $ – | $ – | $ 1,824 |
| **Nonrecurring assets** | | | | |
| Nonaccrual loans | $ – | $ – | $ 442 | $ 442 |
| Other property owned | $ – | $ – | $ – | $ – |

| | December 31, 2023 | | | |
|---|---|---|---|---|
| | Fair Value Measurement Using | | | Total Fair |
| | Level 1 | Level 2 | Level 3 | Value |
| **Recurring assets** | | | | |
| Assets held in trust funds | $ 1,801 | $ – | $ – | $ 1,801 |
| **Nonrecurring assets** | | | | |
| Nonaccrual loans | $ – | $ – | $ 338 | $ 338 |
| Other property owned | $ – | $ – | $ 37 | $ 37 |

**Valuation Techniques**

***Assets held in trust funds***
Assets held in trust funds, related to deferred compensation plans, are classified as Level 1. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

***Nonaccrual loans***
Fair values of nonaccrual loans are estimated to be the carrying amount of the loan less specific reserves. Certain loans evaluated for impairment under FASB guidance have fair values based upon the underlying collateral, as the loans were collateral-dependent. Specific reserves were established for these loans when the value of the collateral, less estimated cost to sell, was less than the principal balance of the loan. 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.

***Other property owned***
For other property owned, the fair value is generally determined using formal appraisals of each individual property. These assets are held for sale. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. If the process uses observable market-based information, the assets are classified as Level 2. If the process requires significant input based upon management’s knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, the assets are classified as Level 3.

## Note 6 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is remote that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

## Note 7 — Subsequent Events

The Association evaluated subsequent events and determined, there were none requiring disclosure through August 8, 2024, which was the date the financial statements were issued.