Farm Credit of Florida, ACA

FIRST QUARTER 2024

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2024 quarterly report of Farm Credit of Florida, 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.

/s/ Marcus A. Boone
Chief Executive Officer

/s/ Laura Craker
Chief Financial Officer

/s/ Bobby G. Lines
Chairman of the Board

May 9, 2024

Farm Credit of Florida, 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 March 31, 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 March 31, 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 March 31, 2024.

/s/ Marcus A. Boone
Chief Executive Officer

/s/ Laura Craker
Chief Financial Officer

May 9, 2024

Farm Credit of Florida, 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 Farm Credit of Florida, ACA, (Association) for the three months ended March 31, 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 in the northern and southern regions of Florida. The commodities include but are not limited to cattle, citrus, dairy, equine, field crops, nurseries, sugar, timber, tropical fruits, and vegetables with no significant single concentration. The largest commodity in the Association's loan portfolio is equine representing 15.6% of the portfolio. Repayment ability remains closely related to the commodities produced by our borrowers with some having supplemental nonfarm income. Farm size varies throughout the regions and many borrowers have diversified farming operations. This factor, along with numerous opportunities for non-farm income in the territory, reduces the level of repayment dependency on a single agricultural commodity.

On September 28th, 2022, Hurricane Ian made landfall near Cayo Costa in Southwest Florida as a strong Category 4 Hurricane. Ian thrashed parts of Florida's western coast, bringing intense winds, heavy rainfall, and catastrophic storm surges. Due to the large size of Ian, all of the Association's territory was impacted by the storm in some degree with the southwest region being the most severe. The 2022-23 citrus crop experienced the greatest loss. Dairy, cattle, south field crops and some northern fern operations were also materially impacted. The financial impact this storm had on our customers and the Association has generally been modest, with dairy and citrus farmers in Southwest Florida suffering the greatest losses. Some credit quality deterioration and modest credit losses were experienced.

Hurricane Idalia landed on Keaton Beach, Florida on the morning of August 30, 2023, as a Category 3 storm, bringing high winds and rain to the coastal regions along the western peninsula and inland agricultural counties. The primary area impacted was the Big Bend area and 3 million acres of surrounding agricultural land, which is primarily used for the grazing. The commodities mostly impacted were timber, poultry, dairy and cattle. Timber was severely impacted in certain areas with up to 80% of hardwoods down. Poultry had structural damage to poultry houses with metal roofs. Dairy was impacted by power outages. FEMA declared a disaster in 16 counties of which seven are within the Association's territory, impacting the Live Oak (Columbia, Hamilton, Lafayette, and Suwanee), Trenton (Dixie and Gilchrist), and Arcadia (Sarasota) Branches with Madison, Hamilton, Suwanee, and Lafayette Counties suffering the greatest impact.

The impact to the Association's overall portfolio from both hurricanes was not material. Loss reduction options that are available for some of our customers, such as the use of loan guarantees, crop insurance, and federal disaster relief, have helped mitigate the losses associated with these storm events. The Association is well capitalized and maintains adequate allowance for credit losses, which allows us to withstand stress in our loan portfolio.

Inflation has declined in the last half of 2023 as interest rates have risen, cooling the economy resulting in the all items CPI inflation rate down to 3.2% for the 12 months ending February 2024. Over the last 12 months, the all items less food and energy index rose 3.8%, the energy index decreased 1.9% while the food index increased 2.2%. Consumer spending continues to be resilient overall, despite signs of stress like higher default rates on consumer debt and higher credit card balances. The Florida unemployment rate was 3.1% at the end of February 2024, comparing favorably to the national average of 3.9% which is slightly above the level when Florida's economy entered the pandemic with an unemployment rate of 2.7%. Florida's unemployment rate has rebounded after exceeding 14% earlier in 2020. Evidence that inflation, while recently moderating, remains elevated, the Federal Open Market Committee (FOMC) has raised its target range for the fed funds rate by 525 bps in 2022 and 2023 including increasing the balance sheet run-off of Treasury securities and agency debt. Recent indicators suggest that economic activity has continued to expand at a modest pace, job gains have been robust in recent months and the unemployment rate has remained low. The FOMC seeks to achieve maximum employment and inflation at 2% over the longer run. Despite the improvement, management will monitor any potential lingering impacts on its borrowers and loan portfolio as some credit quality deterioration and credit losses may occur. The Association is well capitalized and maintains an adequate allowance for credit losses allowing us to withstand stress in our loan portfolio.

Most commodity groups within the portfolio have experienced generally favorable operating results over the last two production seasons; however, citrus producers remain impacted by citrus greening disease and now the impact of Hurricane Ian. The various challenges from citrus greening disease have caused reduced production and declines in overall profitability for most producers. The final 2022-2023 USDA production report indicated a 62% decrease in production for the 2022-2023 citrus crop, following a 22% decline the previous season. Of the estimated $1.035 Billion of expected agricultural losses from Hurricane Ian, 23.9% is in citrus. Despite these factors, the Association's citrus portfolio has continued to perform satisfactorily with performance issues isolated to only a few stressed growers. The outlook for the 2023-2024 season has improved due to the absence of an extreme weather event. However, due to smaller size and higher than expected fruit drop, the expected 25% improvement is now roughly 19%. The dairy industry has also remained under stress due to supply and demand dynamics, reduced government prices support as well as high feed and fuel costs. Most of the Association's dairy loans are to the fluid milk producers who had experienced depressed commodity prices for several years. Pricing declined over the past year, which has stressed producers even more as moderating operating expenses are not making up for the weakened pricing environment.

The horticultural or nursery segment remains satisfactory as residential construction and the overall housing market continues to see ongoing demand. 2023 was stronger than expected, due to moderating operating expenses and strong demand despite challenges in the housing market. To date, 2024's growth has been modest and is expected to remain so for the rest of the year. The forestry industry has also experienced challenges as packaging and housing, including renovation and repair markets, has slowed domestically and global trade remains a concern. The beef cattle industry has strengthened as smaller herd sizes and ongoing strong demand has led to strong prices and feed and transportation costs rises have moderated.

The total loan volume of the Association as of March 31, 2024, was $1,577,888, a decrease of $181 or 0.01 percent as compared to $1,578,069 at December 31, 2023. The decrease in total loan volume during the period is primarily attributed to liquidations and curtailments on several large loan relationships.

The Association remains active in the buying and selling of loan participations within and outside of the System. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which may strengthen our capital position. As of March 31, 2024, participations purchased totaled $463,692 and participations sold totaled $310,120, resulting in $153,572 net participations purchased.

ASSET QUALITY AND LOAN LOSS RESERVES

There is an inherent risk in the extension of any type of credit. Portfolio credit quality declined compared to year end 2023 as a result of an increase in substandard nonaccrual loans offset by improvement in OAEM loans and growth in acceptable loans. The primary improvement in OAEM loans is downgrades to substandard nonaccrual mostly in the vegetable industry. Acceptable and OAEM credit quality, as a percentage of the total loan portfolio, was 98.98 percent as of March 31, 2024, compared to 99.09 percent on December 31, 2023.

Nonaccrual loans increased from $6,870 at December 31, 2023, to $11,069 at March 31, 2024. As a percent of total loans, nonaccrual loans were 0.70% and 0.44% at March 31, 2024 and December 31, 2023, respectively. The increase in nonaccrual loans is attributed to transfers into nonaccrual primarily in the vegetable commodity group. On March 31, 2024, there were no properties in other property owend along with no activity in other property owned during 2024. Therefore, other property owned at March 31, 2024, remained at a zero balance since December 31, 2023.

Association management maintains an allowance for credit losses 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 allowance for credit losses is the allowance for loan losses. The allowance for loan losses at March 31, 2024, was $9,429 or 0.60% of total loans compared to $9,366 or 0.59% 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 allowance for credit losses within the Association's Annual Report and discussion of 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 was intended to cover the Association's share of technology and software services provided by the Bank. Effective January 1, 2024, the Bank modified the methodology used to determine the rate applied to the Association's note payable to the Bank to exclude the Association's share of technology and software services and began billing the Association for these services separately. This change will have a minimal effect on the Association's net income but effectively reclassifies the Association's technology and software costs paid to the Bank from interest expense to noninterest expenses. If the new methodology had been in effect during 2023, the Association would have recorded a reduction in interest expense and corresponding increase of noninterest expense of $1,015 for the three months ended March 31, 2023 as shown in the following table.

	For the three months ended	
	March 31, 2024	March 31, 2023*
Interest Income	$ 26,543	$ 23,661
Interest Expense	13,298	11,300
Net Interest Income	13,245	12,361
Provision for Credit Losses	38	1,431
Noninterest Income	4,523	3,996
Noninterest Expense	8,625	7,958
Net Income	$ 9,105	$ 6,968
Net Interest Margin	3.40%	3.24%
Operating Efficiency Ratio	48.52%	48.85%

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

Net income for the three months ended March 31, 2024, was $9,105, an increase of $2,137 or 30.67 percernt as compared to net income of $6,968 for the same period ended in 2023. The increase is primarily attributed to a decrease in provision for credit losses.

For the three months ended March 31, 2024, net interest income was $13,245, an increase of $1,899 or 16.74 percent as compared to $11,346 for the same period ended in 2023. The increase in net interest income was primarily the result of the change in the rate applied to notes payable discussed above along with higher interest on loan volume growth over the last 12 months and higher interest income on variable rate loans resulting from increasing of the target range for the federal funds rate by the Federal Reserve during 2023.

The provision for credit losses for the three months ended March 31, 2024, was $38, a decrease in expense of $1,393 from the provision for credit losses of $1,431 for the same period ended during the prior year. The decrease in expense is attributed to lower reserves required on loans individually evaluated. Recoveries of $30 recorded during the period were primarily in the field crops commodity group and charge-offs of $14 were mostly in the other category. Net loan recoveries were $16 during the period compared to net loan recoveries of $112 for the same period in 2023, a decrease in net loan recoveries of $96.

Noninterest income increased $527 or 13.19 percent to $4,523 during the first three months of 2024 compared to $3,996 for the first three months of 2023 primarily due to an increase in fees for financially related services along with an increase in patronage refunds from other Farm Credit institutions.

During the first three months of 2024, noninterest expense increased $1,682 or 24.23 percent to $8,625 compared to $6,943 for the first three months of 2023 primarily due to the change in the rate applied to notes payable discussed above along with an increase in salaries and employee benefits. There was an increase in employee incentive expense during 2024 compared to the same period in 2023.

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 March 31, 2024, was $1,221,518 as compared to $1,246,767 at December 31, 2023. The decrease during the period of $25,249 is primarily attributed to a decrease in loan volume during the period along with an increase in members' equity resulting from net income for the three months ended March 31, 2024 and receipt of 2023 patronage dividends due from AgFirst Farm Credit Bank.

CAPITAL RESOURCES

Total members' equity at March 31, 2024, was $360,325, an increase of $9,081 from a total of $351,244 at December 31, 2023. The increase is primarily attributed to net income during the period. Total capital stock and participation certificates were $2,820 on March 31, 2024, compared to $2,844 on December 31, 2023. The decrease is attributed to retirement of capital stock on loans liquidated in the ordinary 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*	3/31/24	12/31/23	3/31/23
Permanent Capital Ratio	7.00%	18.79%	18.67%	18.74%
Common Equity Tier 1 (CET1) Capital Ratio	7.00%	18.69%	18.55%	18.65%
Tier 1 Capital ratio	8.50%	18.69%	18.55%	18.65%
Total Regulatory Capital Ratio	10.50%	19.27%	19.27%	19.16%
Tier 1 Leverage Ratio**	5.00%	20.89%	20.95%	20.72%
Unallocated Retained Earnings (URE) and URE Equivalents	1.50%	17.15%	17.21%	16.94%

** 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) 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. 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 12, 2023, the Farm Credit Administration approved a final rule governing the Farm Credit System's service to young, beginning, and small (YBS) farmers and ranchers. The rule requires banks that fund the direct-lender associations to annually review and approve the association YBS programs. The rule also requires a direct-lender association to enhance the strategic plan of its YBS program. The strategic plan must contain specific elements that will be evaluated as part of a rating system to measure year-over-year internal progress, which would allow the Farm Credit Administration to compare the success of the direct-lender association's YBS program. The final rule became effective on February 14, 2024.

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 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 board reporting requirements. The final rule will become effective on January 1, 2025.

OTHER MATTERS

Ronald Brame, Jr. was promoted to Executive Vice President and Chief Credit Officer effective March 2024. Mr. Brame was the Director of Credit Operations since December 2022 and the North Region Credit Manager since January 2020 and has been employed at Farm Credit of Florida since 2012. Mr. Brame holds a Bachelor of Science in Agriculture and a Master of Business Administration from the University of Florida and a Master of Accounting from Florida Atlantic University.

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 (561)-965-9001, or writing Laura Craker, CFO, Farm Credit of Florida, ACA, P. O. Box 213069, West Palm Beach, FL 33421, or accessing the website, *www.farmcreditfl.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.

Farm Credit of Florida, ACA

Consolidated Balance Sheets

(dollars in thousands)		**March 31, 2024**		**December 31, 2023**
		(unaudited)		*(audited)*
Assets				
Cash	**$**	**14**	$	14
Investments in debt securities:				
Held to maturity		**1,719**		1,781
Loans		**1,577,888**		1,578,069
Allowance for loan losses		**(9,429)**		(9,366)
Net loans		**1,568,459**		1,568,703
Loans held for sale		**3**		6,894
Accrued interest receivable		**10,296**		10,347
Equity investments in other Farm Credit institutions		**26,313**		26,273
Premises and equipment, net		**7,802**		7,634
Accounts receivable		**3,243**		12,800
Other assets		**2,012**		1,638
Total assets	**$**	**1,619,861**	$	1,636,084
Liabilities				
Notes payable to AgFirst Farm Credit Bank	**$**	**1,221,518**	$	1,246,767
Accrued interest payable		**4,644**		5,276
Patronage refunds payable		**409**		14,930
Accounts payable		**3,636**		5,108
Advanced conditional payments		**9,226**		5,209
Other liabilities		**20,103**		7,550
Total liabilities		**1,259,536**		1,284,840
Commitments and contingencies (Note 6)				
Members' Equity				
Protected borrower stock		**445**		445
Capital stock and participation certificates		**2,375**		2,399
Additional paid-in-capital		**7,873**		7,873
Retained earnings				
Allocated		**148,283**		147,634
Unallocated		**201,491**		193,037
Accumulated other comprehensive income (loss)		**(142)**		(144)
Total members' equity		**360,325**		351,244
Total liabilities and members' equity	**$**	**1,619,861**	$	1,636,084

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

Farm Credit of Florida, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended March 31, 2024	2023
Interest Income		
Loans	**$ 26,518**	$ 23,630
Investments	**25**	31
Total interest income	**26,543**	23,661
Interest Expense	**13,298**	12,315
Net interest income	**13,245**	11,346
Provision for credit losses	**38**	1,431
Net interest income after provision for credit losses	**13,207**	9,915
Noninterest Income		
Loan fees	**202**	329
Fees for financially related services	**1,206**	839
Patronage refunds from other Farm Credit institutions	**2,985**	2,746
Gains (losses) on sales of rural home loans, net	**27**	64
Gains (losses) on sales of premises and equipment, net	**9**	1
Gains (losses) on other transactions	**60**	(7)
Other noninterest income	**34**	24
Total noninterest income	**4,523**	3,996
Noninterest Expense		
Salaries and employee benefits	**5,704**	4,858
Occupancy and equipment	**347**	325
Insurance Fund premiums	**302**	536
Purchased services	**1,217**	215
Data processing	**51**	51
Other operating expenses	**1,000**	991
(Gains) losses on other property owned, net	**4**	(33)
Total noninterest expense	**8,625**	6,943
Net income	**$ 9,105**	$ 6,968
Other comprehensive income net of tax		
Employee benefit plans adjustments	**2**	2
Comprehensive income	**$ 9,107**	$ 6,970

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

Farm Credit of Florida, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Stock	Capital Stock and 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	$ 445	$ 2,437	$ 7,873	$ 141,579	$ 185,301	$ (140)	$ 337,495
Cumulative effect of change in accounting principle					452		452
Comprehensive income					6,968	2	6,970
Capital stock/participation certificates issued/(retired), net		(36)					(36)
Patronage distribution adjustment				250	(251)		(1)
Balance at March 31, 2023	$ 445	$ 2,401	$ 7,873	$ 141,829	$ 192,470	$ (138)	$ 344,880
Balance at December 31, 2023	**$ 445**	**$ 2,399**	**$ 7,873**	**$ 147,634**	**$ 193,037**	**$ (144)**	**$ 351,244**
Comprehensive income					**9,105**	**2**	**9,107**
Capital stock/participation certificates issued/(retired), net		**(24)**					**(24)**
Patronage distribution adjustment				**649**	**(651)**		**(2)**
Balance at March 31, 2024	**$ 445**	**$ 2,375**	**$ 7,873**	**$ 148,283**	**$ 201,491**	**$ (142)**	**$ 360,325**

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

Farm Credit of Florida, 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 Farm Credit of Florida, 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:

	March 31, 2024	December 31, 2023
Real estate mortgage	$ 874,093	$ 876,328
Production and intermediate-term	278,234	260,136
Agribusiness:		
Loans to cooperatives	31,433	30,122
Processing and marketing	173,602	176,669
Farm-related business	39,628	41,854
Rural infrastructure:		
Communication	62,956	76,978
Power and water/waste disposal	73,898	72,496
Rural residential real estate	21,319	21,411
Other:		
International	18,219	17,506
Other (including Mission Related)	4,506	4,569
Total loans	$ 1,577,888	$ 1,578,069

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:

	March 31, 2024	December 31, 2023
Real estate mortgage:		
Acceptable	97.87%	97.75%
OAEM	0.97	1.26
Substandard/doubtful/loss	1.16	0.99
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	97.57%	97.49%
OAEM	0.39	0.44
Substandard/doubtful/loss	2.04	2.07
	100.00%	100.00%
Agribusiness:		
Acceptable	94.05%	94.49%
OAEM	5.86	5.43
Substandard/doubtful/loss	0.09	0.08
	100.00%	100.00%
Rural infrastructure:		
Acceptable	95.56%	94.52%
OAEM	4.44	5.48
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	99.46%	99.45%
OAEM	0.17	0.18
Substandard/doubtful/loss	0.37	0.37
	100.00%	100.00%
Other:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	97.08%	96.94%
OAEM	1.90	2.15
Substandard/doubtful/loss	1.02	0.91
	100.00%	100.00%

Accrued interest receivable on loans of $10,259 and $10,331 at March 31, 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:

	March 31, 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	$ 1,915	$ 2,689	$ 4,604	$ 869,489	$ 874,093	$ –
Production and intermediate-term	755	4,936	5,691	272,543	278,234	–
Agribusiness	–	–	–	244,663	244,663	–
Rural infrastructure	–	–	–	136,854	136,854	–
Rural residential real estate	–	80	80	21,239	21,319	–
Other	–	–	–	22,725	22,725	–
Total	$ 2,670	$ 7,705	$ 10,375	$ 1,567,513	$ 1,577,888	$ –

	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	$ 1,076	$ 45	$ 1,121	$ 875,207	$ 876,328	$ –
Production and intermediate-term	193	4,923	5,116	255,020	260,136	–
Agribusiness	–	–	–	248,645	248,645	–
Rural infrastructure	–	–	–	149,474	149,474	–
Rural residential real estate	–	80	80	21,331	21,411	–
Other	–	–	–	22,075	22,075	–
Total	$ 1,269	$ 5,048	$ 6,317	$ 1,571,752	$ 1,578,069	$ –

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

	March 31, 2024		
Nonaccrual loans:	Amortized Cost with Allowance	Amortized Cost without Allowance	Total
Real estate mortgage	$ –	$ 5,486	$ 5,486
Production and intermediate-term	4,414	876	5,290
Agribusiness	–	213	213
Rural residential real estate	–	80	80
Total	$ 4,414	$ 6,655	$ 11,069

	December 31, 2023		
Nonaccrual loans:	Amortized Cost with Allowance	Amortized Cost without Allowance	Total
Real estate mortgage	$ –	$ 1,645	$ 1,645
Production and intermediate-term	4,405	523	4,928
Agribusiness	–	217	217
Rural residential real estate	–	80	80
Total	$ 4,405	$ 2,465	$ 6,870

The Association recognized $146 and $314 of interest income on nonaccrual loans during the three months ended March 31, 2024 and March 31, 2023, respectively.

Reversals of interest income on loans that moved to nonaccrual status were not material for the three months ended March 31, 2024 and March 31, 2023.

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

Allowance for Loan Losses:		
Balance at December 31, 2023	$	9,366
Charge-offs		(14)
Recoveries		30
Provision for loan losses		47
Balance at March 31, 2024	$	9,429
Allowance for Unfunded Commitments:		
Balance at December 31, 2023	$	897
Provision for unfunded commitments		(9)
Balance at March 31, 2024	$	888
Total allowance for credit losses	$	10,317

Allowance for Loan Losses:		
Balance at December 1, 2022	$	8,685
Cumulative effect of a change in accounting principle		(790)
Balance at January 1, 2023	$	7,895
Charge-offs		(24)
Recoveries		136
Provision for loan losses		1,394
Balance at March 31, 2023	$	9,401
Allowance for Unfunded Commitments:		
Balance at December 31, 2022	$	509
Cumulative effect of a change in accounting principle		338
Balance at January 1, 2023	$	847
Provision for unfunded commitments		37
Balance at March 31, 2023	$	884
Total allowance for credit losses	$	10,285

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 months ended March 31, 2024. There were no material commitments to lend to borrowers experiencing financial difficulty whose loans have been modified at March 31, 2024.

Loans held for sale were $3 and $6,894 at March 31, 2024 and December 31, 2023, respectively. Such loans are carried at the lower of cost or fair value.

Note 3 — Investments

Investments in Debt Securities

The Association's investments consist of asset-backed securities (ABSs). These ABSs are issued through the Small Business Administration and are guaranteed by the full faith and credit of the United States government. They are held for managing short-term surplus funds and reducing interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

The Association's investments also consist of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to the FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At March 31, 2024, the Association held no RABs whose credit quality had deteriorated beyond the program limits.

A summary of the amortized cost of investment securities held-to-maturity follows:

	March 31, 2024	December 31, 2023
	Amortized Cost	
RABs	$ 1,426	$ 1,424
ABSs	293	357
Total	$ 1,719	$ 1,781

A summary of the contractual maturity and amortized cost of investment securities follows:

	Amortized Cost
In one year or less	$ 8
After one year through five years	62
After five years through ten years	223
After ten years	1,426
Total	$ 1,719

A portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

The Association evaluates investment securities with unrealized losses for impairment on a quarterly basis. As part of this assessment, it was concluded that the Association does not intend to sell the security, or it is not more likely than not that the Association would be required to sell the security prior to recovery of the amortized cost basis. The Association also evaluates whether credit impairment exists by comparing the present value of expected cash flows to the amortized cost basis of the security. Credit impairment, if any, is recorded as an ACL for debt securities. At March 31, 2024, the Association does not consider any unrealized losses to be credit-related and an allowance for credit losses is not necessary.

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 4.78 percent of the issued stock and allocated retained earnings of the Bank as of March 31, 2024 net of any reciprocal investment. As of that date, the Bank's assets totaled $44.3 billion and shareholders' equity totaled $1.7 billion. The Bank's earnings were $66 million for the first three months of 2024. In addition, the Association held investments of $1,422 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 March 31,	
	2024	2023
Employee Benefit Plans:		
Balance at beginning of period	$ (144)	$ (140)
Other comprehensive income before reclassification:	–	–
Amounts reclassified from AOCI	2	2
Net current period other comprehensive income	2	2
Balance at end of period	$ (142)	$ (138)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*		
	Three Months Ended March 31,		
	2024	**2023**	**Income Statement Line Item**
Defined Benefit Pension Plans:			
Periodic pension costs	$ (2)	$ (2)	Salaries and employee benefits
Net amounts reclassified	$ (2)	$ (2)	

(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.

	March 31, 2024			
	Fair Value Measurement Using			Total Fair
	Level 1	**Level 2**	**Level 3**	**Value**
Recurring assets				
Assets held in trust funds	$ 1,356	$ –	$ –	$ 1,356
Nonrecurring assets				
Nonaccrual loans	$ –	$ –	$ 2,763	$ 2,763
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	$ 1,271	$ –	$ –	$ 1,271
Nonrecurring assets				
Nonaccrual loans	$ –	$ –	$ 2,722	$ 2,722
Other property owned	$ –	$ –	$ –	$ –

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 claims that may be pending.

Note 7 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring disclosure through May 9, 2024, which was the date the financial statements were issued.