

# FIRST QUARTER 2024

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**CERTIFICATION**

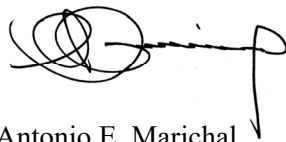
The undersigned certify that we have reviewed the March 31, 2024 quarterly report of Puerto Rico Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Rafael J. Borges  
Chairman of The Board of Directors



Ricardo L. Fernández  
Chief Executive Officer



Antonio E. Marichal  
Chairman of the Audit Committee



Frances Marquez  
Comptroller

May 9, 2024

# 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 Puerto Rico Farm Credit, 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 also maintains a portfolio of purchased loans (PL), originated by other Farm Credit System entities and non-system entities.

The total loan volume of the Association as of March 31, 2024, was \$173,171, an increase of \$1,479 as compared to \$171,692 at December 31, 2023. The Association has been able to increase loan volume by taking advantage of Farm Credit Express Program (FCE). As of March 31, 2024 the Association had closed \$831 in new FCE 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 decreased from \$3,088 at December 31, 2023, to \$2,945 at March 31, 2024. As a percent of total loans, nonaccrual loans were 1.7% and 1.8% at March 31, 2024 and December 31, 2023, respectively.

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 \$1,850 or 1.1% of total loans compared to \$1,747 or 1% 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 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 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 \$101 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                                         | \$ 3,251                   | \$ 2,828        |
| Interest Expense                                        | 1,388                      | 1,213           |
| Net Interest Income                                     | 1,863                      | 1,615           |
| Provision for (Reversal of) Allowance for Credit Losses | (22)                       | 2,101           |
| Noninterest Income                                      | 696                        | 325             |
| Noninterest Expense                                     | 1,645                      | 1,241           |
| Net Income (Loss)                                       | \$ 936                     | \$ (1,402)      |
| Net Interest Margin                                     | 4.43%                      | 3.79%           |
| Operating Efficiency Ratio                              | 62.77%                     | 61.38%          |

*\*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 \$936, an increase of \$2,338 as compared to net loss of \$1,402 for the same period ended in 2023. Improvement on net income is attributable to prior year's writeoffs, that took place mostly on our participated portfolio.

For the three months ended March 31, 2024, net interest income was \$1,863, an increase of \$349 as compared to \$1,514 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 and also for increases in average loan rates.

The reversal of credit losses for the three months ended March 31, 2024, was \$22, a decrease of \$2,123 from the provision for credit losses of \$2,101 for the same period ended during the prior year. Decrease is also tied to the prior year's writeoffs detailed above.

Noninterest income increased \$371 to \$696 during the first three months of 2024 compared with the first three months of 2023 primarily due to a reclassification of the net loss on sale of \$309 from an OPO to noninterest expenses previously recognized as part of noninterest income.

During the first three months of 2024, noninterest expense increased \$506 to \$1,645 compared with the first three months of 2023 primarily due to the recognition of the net loss on sale of an OPO detailed above and to higher personnel costs.

## 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 \$114,183 as compared to \$118,582 at December 31, 2023.

## CAPITAL RESOURCES

Total members' equity at March 31, 2024, was \$60,668, an increase of \$931 from a total of \$59,737 at December 31, 2023. The increase in total members' equity was primarily due to the net income of \$936. Total capital stock and participation certificates were \$507 on March 31, 2024, compared to \$511 on December 31, 2023. The Board of Directors continued its commitment to maintain the cooperative equity investment requirement at the regulatory minimum of 2.0 percent of the original loan or \$1,000, whichever is less.

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:

|                                                         | <b>Regulatory<br/>Minimum<br/>Including<br/>Buffer*</b> | <b>3/31/24</b> | <b>12/31/23</b> | <b>3/31/23</b> |
|---------------------------------------------------------|---------------------------------------------------------|----------------|-----------------|----------------|
| Permanent Capital Ratio                                 | 7.00%                                                   | 34.27%         | 33.99%          | 33.16%         |
| Common Equity Tier 1 (CET1) Capital Ratio               | 7.00%                                                   | 33.90%         | 33.64%          | 32.75%         |
| Tier 1 Capital ratio                                    | 8.50%                                                   | 33.90%         | 33.64%          | 32.75%         |
| Total Regulatory Capital Ratio                          | 10.50%                                                  | 35.07%         | 34.79%          | 34.00%         |
| Tier 1 Leverage Ratio**                                 | 5.00%                                                   | 33.19%         | 32.10%          | 32.45%         |
| Unallocated Regained Earnings (URE) and URE Equivalents | 1.50%                                                   | 32.90%         | 31.81%          | 32.16%         |

\*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.

**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 its website, [www.agfirst.com](http://www.agfirst.com). Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-981-3323, or writing Alice Rivera, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936-3649, or accessing the website, [www.prfarmcredit.com](http://www.prfarmcredit.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 Association.

# Puerto Rico Farm Credit, ACA

## Consolidated Balance Sheets

| <i>(dollars in thousands)</i>                        | March 31,<br>2024<br><i>(unaudited)</i> | December 31,<br>2023<br><i>(audited)</i> |
|------------------------------------------------------|-----------------------------------------|------------------------------------------|
| <b>Assets</b>                                        |                                         |                                          |
| Cash                                                 | \$ 417                                  | \$ 745                                   |
| Loans                                                | 173,171                                 | 171,693                                  |
| Allowance for loan losses                            | (1,850)                                 | (1,747)                                  |
| Net loans                                            | 171,321                                 | 169,946                                  |
| Loans held for sale                                  | —                                       | 3,561                                    |
| Accrued interest receivable                          | 1,069                                   | 1,138                                    |
| Equity investments in other Farm Credit institutions | 2,628                                   | 2,628                                    |
| Premises and equipment, net                          | 761                                     | 863                                      |
| Other property owned                                 | 691                                     | 691                                      |
| Accounts receivable                                  | 318                                     | 1,222                                    |
| Other assets                                         | 98                                      | 48                                       |
| Total assets                                         | \$ 177,303                              | \$ 180,842                               |
| <b>Liabilities</b>                                   |                                         |                                          |
| Notes payable to AgFirst Farm Credit Bank            | \$ 114,183                              | \$ 118,582                               |
| Accrued interest payable                             | 533                                     | 553                                      |
| Patronage refunds payable                            | 21                                      | 21                                       |
| Accounts payable                                     | 362                                     | 513                                      |
| Other liabilities                                    | 1,536                                   | 1,436                                    |
| Total liabilities                                    | 116,635                                 | 121,105                                  |
| Commitments and contingencies (Note 5)               |                                         |                                          |
| <b>Members' Equity</b>                               |                                         |                                          |
| Capital stock and participation certificates         | 506                                     | 511                                      |
| Unallocated retained earnings                        | 60,162                                  | 59,226                                   |
| Total members' equity                                | 60,668                                  | 59,737                                   |
| Total liabilities and members' equity                | \$ 177,303                              | \$ 180,842                               |

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

**Puerto Rico Farm Credit, ACA**

# **Consolidated Statements of Comprehensive Income**

*(unaudited)*

|                                                                                   | <b>For the Three Months<br/>Ended March 31,</b> |                   |
|-----------------------------------------------------------------------------------|-------------------------------------------------|-------------------|
| <i>(dollars in thousands)</i>                                                     | <b>2024</b>                                     | <b>2023</b>       |
| <b>Interest Income</b>                                                            |                                                 |                   |
| Loans                                                                             | \$ 3,251                                        | \$ 2,828          |
| <b>Interest Expense</b>                                                           | <u>1,388</u>                                    | <u>1,314</u>      |
| Net interest income                                                               | 1,863                                           | 1,514             |
| Provision for (reversal of) allowance for credit losses                           | <u>(22)</u>                                     | <u>2,101</u>      |
| Net interest income after provision for (reversal of) allowance for credit losses | <u>1,885</u>                                    | <u>(587)</u>      |
| <b>Noninterest Income</b>                                                         |                                                 |                   |
| Loan fees                                                                         | 147                                             | 62                |
| Patronage refunds from other Farm Credit institutions                             | 239                                             | 263               |
| Gains (losses) on other transactions                                              | <u>310</u>                                      | <u>—</u>          |
| Total noninterest income                                                          | <u>696</u>                                      | <u>325</u>        |
| <b>Noninterest Expense</b>                                                        |                                                 |                   |
| Salaries and employee benefits                                                    | 647                                             | 540               |
| Occupancy and equipment                                                           | 59                                              | 62                |
| Insurance Fund premiums                                                           | 24                                              | 47                |
| Purchased services                                                                | 279                                             | 195               |
| Data processing                                                                   | 12                                              | 10                |
| Other operating expenses                                                          | 585                                             | 236               |
| (Gains) losses on other property owned, net                                       | <u>39</u>                                       | <u>50</u>         |
| Total noninterest expense                                                         | <u>1,645</u>                                    | <u>1,140</u>      |
| <b>Net income (loss)</b>                                                          | <u>\$ 936</u>                                   | <u>\$ (1,402)</u> |
| Other comprehensive income                                                        | <u>—</u>                                        | <u>—</u>          |
| <b>Comprehensive income (loss)</b>                                                | <u>\$ 936</u>                                   | <u>\$ (1,402)</u> |

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

Puerto Rico Farm Credit, ACA

# Consolidated Statements of Changes in Members' Equity

*(unaudited)*

| <i>(dollars in thousands)</i>                                             | Capital<br>Stock and<br>Participation<br>Certificates | Unallocated<br>Retained<br>Earnings | Total<br>Members'<br>Equity |
|---------------------------------------------------------------------------|-------------------------------------------------------|-------------------------------------|-----------------------------|
| Balance at December 31, 2022                                              | \$ 514                                                | \$ 59,952                           | \$ 60,466                   |
| Cumulative effect of change in<br>accounting principle                    |                                                       | 104                                 | 104                         |
| Comprehensive income (loss)                                               |                                                       | (1,402)                             | (1,402)                     |
| Capital stock/participation<br>certificates issued/(retired), net         | (7)                                                   |                                     | (7)                         |
| Balance at March 31, 2023                                                 | \$ 507                                                | \$ 58,654                           | \$ 59,161                   |
| <b>Balance at December 31, 2023</b>                                       | <b>\$ 511</b>                                         | <b>\$ 59,226</b>                    | <b>\$ 59,737</b>            |
| <b>Comprehensive income (loss)</b>                                        |                                                       | <b>936</b>                          | <b>936</b>                  |
| <b>Capital stock/participation<br/>certificates issued/(retired), net</b> | <b>(5)</b>                                            |                                     | <b>(5)</b>                  |
| <b>Balance at March 31, 2024</b>                                          | <b>\$ 506</b>                                         | <b>\$ 60,162</b>                    | <b>\$ 60,668</b>            |

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

# 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 Puerto Rico 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 4, *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             | \$ 55,870      | \$ 56,847         |
| Production and intermediate-term | 54,096         | 54,149            |
| Agribusiness:                    |                |                   |
| Loans to cooperatives            | 1,174          | 1,188             |
| Processing and marketing         | 40,626         | 38,875            |
| Farm-related business            | 84             | 75                |
| Rural infrastructure:            |                |                   |
| Communication                    | 11,040         | 11,028            |
| Power and water/waste disposal   | 3,600          | 2,828             |
| Rural residential real estate    | 4,631          | 4,824             |
| Other:                           |                |                   |
| International                    | 2,050          | 1,879             |
| Total loans                      | \$ 173,171     | \$ 171,693        |

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 |
|------------------------------------------|----------------|-------------------|
| <b>Real estate mortgage:</b>             |                |                   |
| Acceptable                               | 99.52%         | 99.45%            |
| OAEM                                     | 0.02           | 0.03              |
| Substandard/doubtful/loss                | 0.46           | 0.52              |
|                                          | 100.00%        | 100.00%           |
| <b>Production and intermediate-term:</b> |                |                   |
| Acceptable                               | 87.74%         | 87.98%            |
| OAEM                                     | 0.13           | 0.14              |
| Substandard/doubtful/loss                | 12.13          | 11.88             |
|                                          | 100.00%        | 100.00%           |
| <b>Agribusiness:</b>                     |                |                   |
| Acceptable                               | 91.82%         | 92.42%            |
| OAEM                                     | 6.57           | 5.85              |
| Substandard/doubtful/loss                | 1.61           | 1.73              |
|                                          | 100.00%        | 100.00%           |
| <b>Rural infrastructure:</b>             |                |                   |
| Acceptable                               | 100.00%        | 100.00%           |
| OAEM                                     | —              | —                 |
| Substandard/doubtful/loss                | —              | —                 |
|                                          | 100.00%        | 100.00%           |
| <b>Rural residential real estate:</b>    |                |                   |
| Acceptable                               | 95.27%         | 95.30%            |
| OAEM                                     | —              | —                 |
| Substandard/doubtful/loss                | 4.73           | 4.70              |
|                                          | 100.00%        | 100.00%           |
| <b>Other:</b>                            |                |                   |
| Acceptable                               | 100.00%        | 100.00%           |
| OAEM                                     | —              | —                 |
| Substandard/doubtful/loss                | —              | —                 |
|                                          | 100.00%        | 100.00%           |
| <b>Total loans:</b>                      |                |                   |
| Acceptable                               | 93.91%         | 94.12%            |
| OAEM                                     | 1.64           | 1.42              |
| Substandard/doubtful/loss                | 4.45           | 4.46              |
|                                          | 100.00%        | 100.00%           |

Accrued interest receivable on loans of \$1,069 and \$1,138 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<br>89 Days<br>Past Due | 90 Days or<br>More Past Due | Total Past<br>Due | Not Past Due<br>or Less Than<br>30 Days Past<br>Due | Total Loans | 90 Days or<br>More Past Due<br>and Accruing |
| Real estate mortgage             | \$ 3,821                          | \$ 120                      | \$ 3,941          | \$ 51,929                                           | \$ 55,870   | \$ –                                        |
| Production and intermediate-term | 2,328                             | 2,525                       | 4,853             | 49,243                                              | 54,096      | –                                           |
| Agribusiness                     | –                                 | –                           | –                 | 41,884                                              | 41,884      | –                                           |
| Rural infrastructure             | –                                 | –                           | –                 | 14,640                                              | 14,640      | –                                           |
| Rural residential real estate    | 81                                | –                           | 81                | 4,550                                               | 4,631       | –                                           |
| Other                            | –                                 | –                           | –                 | 2,050                                               | 2,050       | –                                           |
| Total                            | \$ 6,230                          | \$ 2,645                    | \$ 8,875          | \$ 164,296                                          | \$ 173,171  | \$ –                                        |

| December 31, 2023                |                                   |                             |                   |                                                     |             |                                                |
|----------------------------------|-----------------------------------|-----------------------------|-------------------|-----------------------------------------------------|-------------|------------------------------------------------|
|                                  | 30 Through<br>89 Days<br>Past Due | 90 Days or<br>More Past Due | Total Past<br>Due | Not Past Due<br>or Less Than<br>30 Days Past<br>Due | Total Loans | 90 Days or<br>More Past<br>Due and<br>Accruing |
| Real estate mortgage             | \$ 448                            | \$ 478                      | \$ 926            | \$ 55,921                                           | \$ 56,847   | \$ –                                           |
| Production and intermediate-term | 2,149                             | 2,021                       | 4,170             | 49,979                                              | 54,149      | 27                                             |
| Agribusiness                     | –                                 | –                           | –                 | 40,138                                              | 40,138      | –                                              |
| Rural infrastructure             | –                                 | –                           | –                 | 13,856                                              | 13,856      | –                                              |
| Rural residential real estate    | 271                               | –                           | 271               | 4,553                                               | 4,824       | –                                              |
| Other                            | –                                 | –                           | –                 | 1,879                                               | 1,879       | –                                              |
| Total                            | \$ 2,868                          | \$ 2,499                    | \$ 5,367          | \$ 166,326                                          | \$ 171,693  | \$ 27                                          |

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

| March 31, 2024                   |                                     |                                           |          |
|----------------------------------|-------------------------------------|-------------------------------------------|----------|
|                                  | Amortized<br>Cost with<br>Allowance | Amortized<br>Cost<br>without<br>Allowance | Total    |
| <b>Nonaccrual loans:</b>         |                                     |                                           |          |
| Real estate mortgage             | \$ –                                | \$ 297                                    | \$ 297   |
| Production and intermediate-term | 2,310                               | 338                                       | 2,648    |
| Total                            | \$ 2,310                            | \$ 635                                    | \$ 2,945 |

| December 31, 2023                |                                     |                                           |          |
|----------------------------------|-------------------------------------|-------------------------------------------|----------|
|                                  | Amortized<br>Cost with<br>Allowance | Amortized<br>Cost<br>without<br>Allowance | Total    |
| <b>Nonaccrual loans:</b>         |                                     |                                           |          |
| Real estate mortgage             | \$ –                                | \$ 472                                    | \$ 472   |
| Production and intermediate-term | 390                                 | 2,226                                     | 2,616    |
| Rural residential real estate    | 10                                  | (10)                                      | –        |
| Total                            | \$ 400                              | \$ 2,688                                  | \$ 3,088 |

The Association recognized \$237 and \$1 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:

|                                   |                 |
|-----------------------------------|-----------------|
| <b>Allowance for Loan Losses:</b> |                 |
| Balance at December 31, 2023      | \$ 1,747        |
| Charge-offs                       | (34)            |
| Recoveries                        | 107             |
| Provision for loan losses         | 30              |
| Balance at March 31, 2024         | <u>\$ 1,850</u> |

|                                            |                        |
|--------------------------------------------|------------------------|
| <b>Allowance for Unfunded Commitments:</b> |                        |
| Balance at December 31, 2023               | \$ 206                 |
| Provision for unfunded commitments         | (52)                   |
| Balance at March 31, 2024                  | <u>\$ 154</u>          |
| <b>Total allowance for credit losses</b>   | <u><b>\$ 2,004</b></u> |

|                                                       |                 |
|-------------------------------------------------------|-----------------|
| <b>Allowance for Loan Losses:</b>                     |                 |
| Balance at December 1, 2022                           | \$ 1,189        |
| Cumulative effect of a change in accounting principle | (11)            |
| Balance at January 1, 2023                            | <u>\$ 1,178</u> |
| Charge-offs                                           | (1)             |
| Recoveries                                            | 2               |
| Provision for loan losses                             | 2,157           |
| Balance at March 31, 2023                             | <u>\$ 3,336</u> |

|                                                       |                        |
|-------------------------------------------------------|------------------------|
| <b>Allowance for Unfunded Commitments:</b>            |                        |
| Balance at December 31, 2022                          | \$ 167                 |
| Cumulative effect of a change in accounting principle | (93)                   |
| Balance at January 1, 2023                            | <u>\$ 74</u>           |
| Provision for unfunded commitments                    | (56)                   |
| Balance at March 31, 2023                             | <u>\$ 18</u>           |
| <b>Total allowance for credit losses</b>              | <u><b>\$ 3,354</b></u> |

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 \$0 and \$3,561 at March 31, 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 0.48 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 \$135 in investments related to other Farm Credit institutions.

## Note 4 — 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 Value |          |
|                            | Level 1                      | Level 2 | Level 3  |                  |          |
|                            |                              |         |          |                  |          |
| <b>Recurring assets</b>    |                              |         |          |                  |          |
| Assets held in trust funds | \$ —                         | \$ —    | \$ —     | \$ —             | \$ —     |
| <b>Nonrecurring assets</b> |                              |         |          |                  |          |
| Nonaccrual loans           | \$ —                         | \$ —    | \$ 1,519 | \$ 1,519         | \$ 1,519 |
| Other property owned       | \$ —                         | \$ —    | \$ 737   | \$ 737           | \$ 737   |

| December 31, 2023          |                              |         |          |                  |          |
|----------------------------|------------------------------|---------|----------|------------------|----------|
|                            | Fair Value Measurement Using |         |          | Total Fair Value |          |
|                            | Level 1                      | Level 2 | Level 3  |                  |          |
|                            |                              |         |          |                  |          |
| <b>Recurring assets</b>    |                              |         |          |                  |          |
| Assets held in trust funds | \$ —                         | \$ —    | \$ —     | \$ —             | \$ —     |
| <b>Nonrecurring assets</b> |                              |         |          |                  |          |
| Nonaccrual loans           | \$ —                         | \$ —    | \$ 4,081 | \$ 4,081         | \$ 4,081 |
| Other property owned       | \$ —                         | \$ —    | \$ 737   | \$ 737           | \$ 737   |

## 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.

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***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 5 — 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 6 — Subsequent Events**

The Association evaluated subsequent events and determined, other than described below, no subsequent events have occurred requiring disclosure through May 9, 2024, which was the date the financial statements were issued.

The Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations, held assets that exceeded the secure based amount as defined by the Farm Credit Act, and on April 12, 2024, FCSIC announced a refund of excess funds to Farm Credit Institutions. As a result, the Association received \$37 in insurance premium refunds in April.