First South Farm Credit, ACA

FIRST QUARTER 2024

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2024 quarterly report of First South 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.

Thomas H. Nelson, Jr.
Chairman of the Board

Gines Pérez, III
Chief Executive Officer

Sarah F. Lutz
Chief Financial Officer

May 9, 2024

First South Farm Credit, ACA

Report on Internal Control Over Financial Reporting

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

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of 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.

Gines Pérez, III
Chief Executive Officer

Sarah F. Lutz
Chief Financial Officer

May 9, 2024

First South Farm Credit, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of First South 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 through numerous product types. The Association's loan portfolio is diversified over a range of agricultural commodities. Concentrations within the portfolio include real estate, poultry, livestock, forestry, and various row crops. Farm size varies and many of the borrowers in the region have diversified farming operations. The variety of commodities, along with the increase in non-farm income borrowers in the area, reduces the level of dependency on any single commodity.

The total loan volume of the Association as of March 31, 2024, was $3,059,525, an increase of $28,891 as compared to $3,030,634 at December 31, 2023. The growth for the three month period is spread across a number of concentrations, with largest increases seen in real estate, timber and various row crops.

ASSET QUALITY AND LOAN LOSS RESERVES

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans increased from $8,095 at December 31, 2023, to $10,625 at March 31, 2024. As a percent of total loans, nonaccrual loans were .35% and .27% 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 $14,806 or .48% of total loans compared to $13,956 or .46% 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 notes 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 expense. 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 $1,962 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	$ 42,670	$ 35,876
Interest Expense	21,299	15,721
Net Interest Income	21,371	20,155
Provision for Credit Losses	940	359
Noninterest Income	7,497	7,582
Noninterest Expense	13,331	13,601
Provision for Income Taxes	3	1
Net Income	$ 14,594	$ 13,776
Net Interest Margin	2.61%	2.84%
Operating Efficiency Ratio	43.52%	49.04%

**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 $14,594, an increase of $818 as compared to net income of $13,776 for the same period ended in 2023. The increase in net income primarily relates to an increase in net interest income and changes in noninterest income. A more detailed explanation of the changes will be discussed below.

For the three months ended March 31, 2024, net interest income was $21,371, an increase of $3,178 as compared to $18,193 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 growth in the loan portfolio.

The provision for credit losses for the three months ended March 31, 2024, was $940, an increase of $581 from the provision for credit losses of $359 for the same period ended during the prior year.

Noninterest income decreased $85 to $7,497 during the first three months of 2024 compared with the same period ended during the prior year. The decrease was primarily due to gains on sales of premises and equipment recognized during the first three months of 2023 that were not realized in 2024 which was offset by an increase in patronage received from AgFirst.

During the first three months of 2024, noninterest expense increased $1,692 to $13,331 compared with the first three months of 2023. The increase is due to the change in the rate applied to notes payable discussed above which is captured in purchased services. Salaries and employee benefits expense also experienced an increase in the first quarter. The increase for the period was offset by a decrease in FCSIC premium expense and pension expense.

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 $2,503,487 as compared to $2,495,740 at December 31, 2023.

CAPITAL RESOURCES

Total members' equity at March 31, 2024, was $641,506, an increase of $14,652 from a total of $626,854 at December 31, 2023. Total capital stock and participation certificates were $52,931 on March 31, 2024, compared to $52,873 on December 31, 2023.

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*	March 31, 2024	December 31, 2023	March 31, 2023
Permanent Capital Ratio	7.00%	17.29%	17.45%	17.70%
Common Equity Tier 1 (CET1) Capital Ratio	7.00%	17.16%	17.31%	17.57%
Tier 1 Capital Ratio	8.50%	17.16%	17.31%	17.57%
Total Regulatory Capital Ratio	10.50%	17.62%	17.82%	18.06%
Tier 1 Leverage Ratio**	5.00%	17.88%	18.00%	18.30%
Unallocated Retained Earnings (URE) and URE Equivalents	1.50%	12.07%	12.15%	12.22%

** Includes 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.

SHAREHOLDER INVESTMENT

Shareholder investment in the Association could be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst Farm Credit Bank’s Quarterly and Annual Reports are on the AgFirst website, *www.agfirst.com*, or may be obtained at no charge by calling 1-800-845-1745, extension 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Copies of the Association’s Annual and Quarterly reports are also on the Association’s website, *www.firstsouthfarmcredit.com*, or may be obtained upon request free of charge by calling 1-800-955-1722 or writing Sarah Lutz, First South Farm Credit, ACA, 574 Highland Colony Parkway, Three Paragon Centre, Suite 100, Ridgeland, MS 39157. 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.

First South Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	**March 31, 2024**	**December 31, 2023**
	(unaudited)	*(audited)*
Assets		
Cash	**$ 107**	$ 120
Loans	**3,059,525**	3,030,634
Allowance for loan losses	**(14,806)**	(13,956)
Net loans	**3,044,719**	3,016,678
Accrued interest receivable	**30,917**	31,892
Equity investments in other Farm Credit institutions	**91,987**	91,987
Premises and equipment, net	**26,598**	19,147
Other property owned	**583**	507
Accounts receivable	**6,794**	27,596
Other assets	**1,126**	1,015
Total assets	**$ 3,202,831**	$ 3,188,942
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 2,503,487**	$ 2,495,740
Accrued interest payable	**7,486**	7,994
Patronage refunds payable	**275**	33,126
Accounts payable	**3,404**	6,742
Other liabilities	**46,673**	18,486
Total liabilities	**2,561,325**	2,562,088
Commitments and contingencies (Note 6)		
Members' Equity		
Capital stock and participation certificates	**52,931**	52,873
Retained earnings		
Allocated	**256,357**	256,357
Unallocated	**339,228**	324,634
Accumulated other comprehensive income (loss)	**(7,010)**	(7,010)
Total members' equity	**641,506**	626,854
Total liabilities and members' equity	**$ 3,202,831**	$ 3,188,942

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

First South Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended March 31, 2024	2023
Interest Income		
Loans	**$ 42,670**	$ 35,876
Interest Expense	**21,299**	17,683
Net interest income	**21,371**	18,193
Provision for credit losses	**940**	359
Net interest income after provision for credit losses	**20,431**	17,834
Noninterest Income		
Loan fees	**954**	932
Fees for financially related services	**9**	34
Patronage refunds from other Farm Credit institutions	**6,496**	6,234
Gains (losses) on sales of premises and equipment, net	**27**	376
Other noninterest income (loss)	**11**	6
Total noninterest income	**7,497**	7,582
Noninterest Expense		
Salaries and employee benefits	**8,205**	7,601
Occupancy and equipment	**566**	484
Insurance Fund premiums	**591**	1,005
Purchased services	**2,224**	141
Data processing	**110**	108
Other operating expenses	**1,635**	2,300
Total noninterest expense	**13,331**	11,639
Income before income taxes	**14,597**	13,777
Provision for income taxes	**3**	1
Net income	**$ 14,594**	$ 13,776
Other comprehensive income net of tax		
Employee benefit plans adjustments	**—**	117
Comprehensive income	**$ 14,594**	$ 13,893

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

First South Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings: Allocated	Retained Earnings: Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2022	$ 52,613	$ 256,357	$ 294,889	$ (13,170)	$ 590,689
Cumulative effect of change in accounting principle			5,570		5,570
Comprehensive income			13,776	117	13,893
Capital stock/participation certificates issued/(retired), net	(69)				(69)
Patronage distribution adjustment			(3,458)		(3,458)
Balance at March 31, 2023	$ 52,544	$ 256,357	$ 310,777	$ (13,053)	$ 606,625
Balance at December 31, 2023	**$ 52,873**	**$ 256,357**	**$ 324,634**	**$ (7,010)**	**$ 626,854**
Comprehensive income			**14,594**		**14,594**
Capital stock/participation certificates issued/(retired), net	**58**				**58**
Balance at March 31, 2024	**$ 52,931**	**$ 256,357**	**$ 339,228**	**$ (7,010)**	**$ 641,506**

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

First South Farm Credit, ACA

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

Note 2 — Loans and Allowance for Credit Losses

A summary of loans outstanding at period end follows:

	March 31, 2024	December 31, 2023
Real estate mortgage	$ 2,403,514	$ 2,390,611
Production and intermediate-term	466,721	461,291
Agribusiness:		
Loans to cooperatives	8,255	5,421
Processing and marketing	110,387	90,353
Farm-related business	19,722	32,459
Rural infrastructure:		
Communication	10,252	10,274
Power and water/waste disposal	19,280	19,298
Rural residential real estate	21,394	20,927
Total loans	$ 3,059,525	$ 3,030,634

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	97.52%	98.02%
OAEM	1.94	1.49
Substandard/doubtful/loss	0.54	0.49
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	92.77%	94.30%
OAEM	6.08	4.36
Substandard/doubtful/loss	1.15	1.34
	100.00%	100.00%
Agribusiness:		
Acceptable	94.49%	94.67%
OAEM	4.93	4.70
Substandard/doubtful/loss	0.58	0.63
	100.00%	100.00%
Rural infrastructure:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	98.77%	99.09%
OAEM	0.72	0.37
Substandard/doubtful/loss	0.51	0.54
	100.00%	100.00%
Total loans:		
Acceptable	96.69%	97.34%
OAEM	2.68	2.04
Substandard/doubtful/loss	0.63	0.62
	100.00%	100.00%

Accrued interest receivable on loans of $30,917 and $31,892 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	$ 8,498	$ 441	$ 8,939	$ 2,394,575	$ 2,403,514	$ –
Production and intermediate-term	2,713	2,470	5,183	461,538	466,721	46
Agribusiness	11	799	810	137,554	138,364	–
Rural infrastructure	–	–	–	29,532	29,532	–
Rural residential real estate	75	–	75	21,319	21,394	–
Total	$ 11,297	$ 3,710	$ 15,007	$ 3,044,518	$ 3,059,525	$ 46

	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	$ 11,883	$ 1,162	$ 13,045	$ 2,377,566	$ 2,390,611	$ –
Production and intermediate-term	2,150	2,333	4,483	456,808	461,291	–
Agribusiness	13	814	827	127,406	128,233	–
Rural infrastructure	–	–	–	29,572	29,572	–
Rural residential real estate	18	–	18	20,909	20,927	–
Total	$ 14,064	$ 4,309	$ 18,373	$ 3,012,261	$ 3,030,634	$ –

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	$ 1,266	$ 5,213	$ 6,479
Production and intermediate-term	1,579	1,767	3,346
Agribusiness	–	800	800
Total	$ 2,845	$ 7,780	$ 10,625

	December 31, 2023		
Nonaccrual loans:	Amortized Cost with Allowance	Amortized Cost without Allowance	Total
Real estate mortgage	$ 1,291	$ 2,679	$ 3,970
Production and intermediate-term	1,583	1,728	3,311
Agribusiness	–	814	814
Total	$ 2,874	$ 5,221	$ 8,095

The Association recognized $54 and $14 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	$	13,956
Charge-offs		–
Recoveries		10
Provision for loan losses		840
Balance at March 31, 2024	$	14,806
Allowance for Unfunded Commitments:		
Balance at December 31, 2023	$	602
Provision for unfunded commitments		100
Balance at March 31, 2024	$	702
Total allowance for credit losses	$	15,508

Allowance for Loan Losses:		
Balance at December 31, 2022	$	20,622
Cumulative effect of a change in accounting principle		(5,930)
Balance at January 1, 2023	$	14,692
Charge-offs		–
Recoveries		2
Provision for loan losses		229
Balance at March 31, 2023	$	14,923
Allowance for Unfunded Commitments:		
Balance at December 31, 2022	$	–
Cumulative effect of a change in accounting principle		360
Balance at January 1, 2023	$	360
Provision for unfunded commitments		130
Balance at March 31, 2023	$	490
Total allowance for credit losses	$	15,413

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.

The Association had no loans held for sale at March 31, 2024 and December 31, 2023.

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 9.56 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 $1,398 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	$ (7,010)	$ (13,170)
Other comprehensive income before reclassifications	–	–
Amounts reclassified from AOCI	–	117
Net current period other comprehensive income	–	117
Balance at end of period	$ (7,010)	$ (13,053)

	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	$ –	$ (117)	Salaries and employee benefits
Net amounts reclassified	$ –	$ (117)	

(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	$	11	$	–	$	–	$	11
Nonrecurring assets								
Nonaccrual loans	$	–	$	–	$	1,612	$	1,612
Other property owned	$	–	$	–	$	673	$	673

	December 31, 2023							
	Fair Value Measurement Using						Total Fair	
	Level 1		Level 2		Level 3		Value	
Recurring assets								
Assets held in trust funds	$	–	$	–	$	–	$	–
Nonrecurring assets								
Nonaccrual loans	$	–	$	–	$	1,604	$	1,604
Other property owned	$	–	$	–	$	588	$	588

Valuation Techniques

Assets held in trust funds

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

Nonaccrual loans

Fair values of nonaccrual loans are estimated to be the carrying amount of the loan less specific reserves. Certain loans evaluated for impairment under FASB guidance have fair values based upon the underlying collateral, as the loans were collateral-dependent. Specific reserves were established for these loans when the value of the collateral, less estimated cost to sell, was less than the principal balance of the loan. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters.

Other property owned

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

Note 6 — Commitments and Contingent Liabilities

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

Note 7 — Subsequent Events

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