Southwest Georgia Farm Credit, ACA

SECOND QUARTER 2024

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CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2024 quarterly report of Southwest Georgia 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.

Paxton W. Poitevint
President/CEO

Ryan G. Burtt
Chief Financial Officer

James H. Dixon Jr.
Chairman of the Board

August 8, 2024

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

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. While we make loans and provide Financial Related "Services to qualified borrowers in the Agriculture and Rural sectors and certain related industries, our loan portfolio is diversified by commodity and industry categories as well as in participation type lending.

The total loan volume of the Association as of June 30, 2024, was $635,842, a decrease of $48,939 as compared to $684,781 at December 31, 2023. The combination of inflation and rising interest rates has strained loan volume growth.

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 $5,865 at December 31, 2023, to $4,945 at June 30, 2024. As a percent of total loans, nonaccrual loans were .78 percent and .86 percent at June 30, 2024 and December 31, 2023, respectively. Other Property Owned totaled $567 at June 30, 2024 compared to $31 at December 31, 2023.

Association management maintains an allowance for credit losses (ACL) in an amount considered sufficient to absorb estimated current and expected credit losses over the financial assets expected life. The most significant component of the Association's ACL is the allowance for credit losses on loans (ACLL). The ACLL at June 30, 2024, was $5,569 or .88 percent of total loans compared to $3,922 or .57 percent of total loans at December 31, 2023, and is considered by management to be adequate to cover estimated current and expected losses within the loan portfolio. See further detail on the Association's ACL within the Association's Annual Report and discussion of significant provision for credit loss within the *Results of Operations* below.

RESULTS OF OPERATIONS

The Association's primary source of funding is provided by AgFirst Farm Credit Bank (the Bank) in the form of notes payable. See *Funding Sources* section below for additional detail on this relationship. Prior to January 1, 2024, the rate applied to the notes payable to the Bank included the Association's allocation of technology and software services provided by the Bank. Effective January 1, 2024, the Bank amended the line of credit agreement to exclude the Association's allocation of costs for Bank-provided services from the Direct Note rate. The master service agreement was also amended to bill the Association for these services separately. This change had a minimal effect on the Association's net income but did result in a higher net interest margin as it effectively reclassifies the Association's technology and software costs paid to the Bank from interest expense to noninterest expense. If this amendment had been in effect during 2023, the Association would have had lower interest expense and corresponding higher noninterest expense of $495 and $964 for the three and six months ended June 30, 2023, respectively, as shown in the tables below.

	For the three months ended			For the six months ended		
	June 30, 2024	June 30, 2023	June 30, 2023*	June 30, 2024	June 30, 2023	June 30, 2023*
Interest Income	$ 10,366	$ 10,214	$ 10,214	$ 20,148	$ 19,487	$ 19,487
Interest Expense	5,459	5,608	5,113	10,642	10,458	9,494
Net Interest Income	4,907	4,606	5,101	9,506	9,029	9,993
Provision for Credit Losses	1,782	655	655	1,894	522	522
Noninterest Income	2,567	2,180	2,180	5,258	4,126	4,126
Noninterest Expense	3,513	2,974	3,469	6,985	6,229	7,193
Provision for Income Taxes	–	–	–	–	(15)	(15)
Net income	$ 2,179	$ 3,157	$ 3,157	$ 5,885	$ 6,419	$ 6,419
Net Interest Margin	2.89%	2.71%	3.00%	3.08%	2.72%	3.01%
Operating Efficiency Ratio	46.92%	43.74%	47.56%	47.26%	47.21%	50.81%

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

For the three months ended June 30, 2024

Net income for the three months ended June 30, 2024, was $2,179, a decrease of $978 as compared to net income of $3,157 for the same period ended in 2023. This decrease is relative to recent Loan Loss provisions required.

For the three months ended June 30, 2024, net interest income was $4,907 and the net interest margin was 2.89 percent. After adjusting the prior year for the notes payable rate amendment discussed above, net interest income was $5,101, an decrease of $194, and the net interest margin was 3.00 percent, a decrease of 11 basis points for the three months ended June 30, 2024.

The provision for credit losses for the three months ended June 30, 2024, was $1,782, an increase of $1,127 from the provision for credit losses of $655 for the same period ended during the prior year. A large participation loan transferred to nonaccrual status during second quarter and required an additional provision for loss.

Noninterest income increased $387 to $2,567 during the first three months of 2024 compared with the first three months of 2023 primarily due to insurance fund refund of $200, Loan Fees of $16, and Patronage Refunds of $163.

For the three months ended June 30, 2024, noninterest expense was $3,513. After adjusting the prior year for the notes payable rate amendment discussed above, noninterest expense was $3,469, an increase of $44 for the three months ended June 30, 2024. This increase is primarily and increase in purchased services expenses.

For the six months ended June 30, 2024

Net income for the six months ended June 30, 2024, was $5,885, a decrease of $534 as compared to net income of $6,419 for the same period ended in 2023. This decrease is primarily related to the increases required in provisions for credit losses.

For the six months ended June 30, 2024, net interest income was $9,506 and the net interest margin was 3.08 percent. After adjusting the prior year for the notes payable rate amendment discussed above, net interest income was $9,993, a decrease of $487, and the net interest margin was 3.01 percent, a decrease of 7 basis points for the six months ended June 30, 2024.

The provision for credit losses for the six months ended June 30, 2024, was $1,894, an increase of $1,372 from the provision for credit losses of $522 for the same period ended during the prior year. A large participation loan transferred to nonaccrual status during second quarter and required an additional provision for loss.

Noninterest income increased $1,132 to $5,258 during the first six months of 2024 compared with the first six months of 2023 primarily due to increases in Patronage Refunds and Insurance Fund Refunds.

For the six months ended June 30, 2024, noninterest expense was $6,985. After adjusting the prior year for the notes payable rate amendment discussed above, noninterest expense was $7,193, a decrease of $208 for the six months ended June 30, 2024. This decrease was primarily in Purchases Services and Other Operating Expenses.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2024, was $534,781 as compared to $585,237 at December 31, 2023.

CAPITAL RESOURCES

Total members' equity at June 30, 2024, was $134,071, an increase of $5,809 from a total of $128,262 at December 31, 2023. Unallocated Surplus increased from the portion of 2023 Net income not distributed as patronage dividends and held for capital management. Current 2024 net income is also counted toward this increase. Total capital stock and participation certificates were $1,636 on June 30, 2024, compared to $1,605 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*	6/30/24	12/31/23	6/30/23
Permanent Capital Ratio	7.00%	18.86%	16.84%	16.64%
Common Equity Tier 1 (CET1) Capital Ratio	7.00%	18.70%	16.73%	16.53%
Tier 1 Capital ratio	8.50%	18.70%	16.73%	16.53%
Total Regulatory Capital Ratio	10.50%	19.66%	17.49%	17.22%
Tier 1 Leverage Ratio**	5.00%	17.10%	15.39%	15.56%
Unallocated Retained Earnings (URE) and URE Equivalents	1.50%	16.85%	15.16%	15.33%

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

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

REGULATORY MATTERS

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

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

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-229-246-0384 or 1-866-304-3276, writing Belinda Ott, Treasurer, Southwest Georgia Farm Credit, ACA, 305 Colquitt Highway, Bainbridge, Georgia 39817 or accessing the website, *www.swgafarmcredit.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.

Southwest Georgia Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	June 30, 2024	December 31, 2023
	(unaudited)	*(audited)*
Assets		
Cash	**$ 2**	$ 2
Investments in debt securities:		
Held to maturity	**3,964**	3,990
Loans	**635,842**	684,781
Allowance for credit losses on loans	**(5,569)**	(3,922)
Net loans	**630,273**	680,859
Loans held for sale	**—**	2,618
Accrued interest receivable	**8,535**	11,242
Equity investments in other Farm Credit institutions	**22,330**	18,862
Premises and equipment, net	**3,953**	4,075
Other property owned	**567**	31
Accounts receivable	**4,311**	7,830
Other assets	**297**	309
Total assets	**$ 674,232**	$ 729,818
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 534,781**	$ 585,237
Accrued interest payable	**1,849**	2,175
Patronage refunds payable	**145**	6,778
Accounts payable	**371**	1,234
Advanced conditional payments	**34**	—
Other liabilities	**2,981**	6,132
Total liabilities	**540,161**	601,556
Commitments and contingencies (Note 5)		
Members' Equity		
Capital stock and participation certificates	**1,636**	1,605
Retained earnings		
Allocated	**9,707**	9,707
Unallocated	**122,728**	116,950
Total members' equity	**134,071**	128,262
Total liabilities and members' equity	**$ 674,232**	$ 729,818

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

Southwest Georgia Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended June 30, 2024	For the Three Months Ended June 30, 2023	For the Six Months Ended June 30, 2024	For the Six Months Ended June 30, 2023
Interest Income				
Loans	**$ 10,305**	$ 10,149	**$ 20,026**	$ 19,358
Investments	**61**	65	**122**	129
Total interest income	**10,366**	10,214	**20,148**	19,487
Interest Expense	**5,459**	5,608	**10,642**	10,458
Net interest income	**4,907**	4,606	**9,506**	9,029
Provision for credit losses	**1,782**	655	**1,894**	522
Net interest income after provision for credit losses	**3,125**	3,951	**7,612**	8,507
Noninterest Income				
Loan fees	**264**	248	**517**	491
Patronage refunds from other Farm Credit institutions	**2,095**	1,932	**4,482**	3,638
Gains (losses) on sales of premises and equipment, net	**(3)**	—	**(3)**	—
Gains (losses) on other transactions	**4**	(2)	**15**	(5)
Insurance Fund refunds	**200**	—	**200**	—
Other noninterest income	**7**	2	**47**	2
Total noninterest income	**2,567**	2,180	**5,258**	4,126
Noninterest Expense				
Salaries and employee benefits	**1,816**	1,865	**3,584**	3,868
Occupancy and equipment	**242**	143	**390**	269
Insurance Fund premiums	**125**	256	**251**	502
Purchased services	**682**	206	**1,388**	427
Data processing	**45**	30	**61**	60
Other operating expenses	**597**	469	**1,304**	1,085
(Gains) losses on other property owned, net	**6**	5	**7**	18
Total noninterest expense	**3,513**	2,974	**6,985**	6,229
Income before income taxes	**2,179**	3,157	**5,885**	6,404
Provision (benefit) for income taxes	**—**	—	**—**	(15)
Net income	**$ 2,179**	$ 3,157	**$ 5,885**	$ 6,419
Other comprehensive income	**—**	—	**—**	—
Comprehensive income	**$ 2,179**	$ 3,157	**$ 5,885**	$ 6,419

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

Southwest Georgia 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	Total Members' Equity
Balance at December 31, 2022	$ 1,605	$ 9,707	$ 109,266	$ 120,578
Cumulative effect of change in accounting principle			452	452
Comprehensive income			6,419	6,419
Capital stock/participation certificates issued/(retired), net	6			6
Patronage distribution adjustment			46	46
Balance at June 30, 2023	$ 1,611	$ 9,707	$ 116,183	$ 127,501
Balance at December 31, 2023	**$ 1,605**	**$ 9,707**	**$ 116,950**	**$ 128,262**
Comprehensive income			**5,885**	**5,885**
Capital stock/participation certificates issued/(retired), net	**31**			**31**
Patronage distribution adjustment			**(107)**	**(107)**
Balance at June 30, 2024	**$ 1,636**	**$ 9,707**	**$ 122,728**	**$ 134,071**

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

Southwest Georgia 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 Southwest Georgia 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 June 30, 2024 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:

	June 30, 2024	December 31, 2023
Real estate mortgage	$ 338,183	$ 386,942
Production and intermediate-term	171,606	164,037
Agribusiness:		
Loans to cooperatives	2,641	2,247
Processing and marketing	72,804	77,976
Farm-related business	24,330	25,928
Rural infrastructure:		
Communication	12,969	13,733
Power and water/waste disposal	6,683	7,327
Rural residential real estate	2,473	2,463
Other:		
International	2,110	1,930
Lease receivables	2,043	2,198
Total loans	$ 635,842	$ 684,781

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

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

	June 30, 2024	December 31, 2023
Real estate mortgage:		
Acceptable	97.15%	98.13%
OAEM	0.37	1.35
Substandard/doubtful/loss	2.48	0.52
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	94.08%	93.33%
OAEM	3.09	3.47
Substandard/doubtful/loss	2.83	3.20
	100.00%	100.00%
Agribusiness:		
Acceptable	89.95%	92.48%
OAEM	5.72	6.46
Substandard/doubtful/loss	4.33	1.06
	100.00%	100.00%
Rural infrastructure:		
Acceptable	98.14%	94.65%
OAEM	1.86	5.35
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	92.86%	92.50%
OAEM	–	–
Substandard/doubtful/loss	7.14	7.50
	100.00%	100.00%
Other:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	95.23%	95.98%
OAEM	1.99	2.76
Substandard/doubtful/loss	2.78	1.26
	100.00%	100.00%

Accrued interest receivable on loans of $8,504 and $11,210 at June 30, 2024 and December 31, 2023, respectively, has been excluded from the amortized cost of loans and reported separately in the Consolidated Balance Sheets.

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

	June 30, 2024					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	90 Days or More Past Due and Accruing
Real estate mortgage	$ 1,158	$ 382	$ 1,540	$ 336,643	$ 338,183	$ 383
Production and intermediate-term	1,470	900	2,370	169,236	171,606	–
Agribusiness	16	892	908	98,867	99,775	–
Rural infrastructure	–	–	–	19,652	19,652	–
Rural residential real estate	60	117	177	2,296	2,473	–
Other	–	–	–	4,153	4,153	–
Total	$ 2,704	$ 2,291	$ 4,995	$ 630,847	$ 635,842	$ 383

	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	$ 1,985	$ 613	$ 2,598	$ 384,344	$ 386,942	$ –
Production and intermediate-term	715	845	1,560	162,477	164,037	–
Agribusiness	–	899	899	105,252	106,151	–
Rural infrastructure	–	–	–	21,060	21,060	–
Rural residential real estate	185	–	185	2,278	2,463	–
Other	145	–	145	3,983	4,128	–
Total	$ 3,030	$ 2,357	$ 5,387	$ 679,394	$ 684,781	$ –

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

	June 30, 2024		
Nonaccrual loans:	Amortized Cost with Allowance	Amortized Cost without Allowance	Total
Real estate mortgage	$ –	$ 162	$ 162
Production and intermediate-term	2,754	(1,803)	951
Agribusiness	–	3,715	3,715
Rural residential real estate	–	117	117
Total	$ 2,754	$ 2,191	$ 4,945

	December 31, 2023		
Nonaccrual loans:	Amortized Cost with Allowance	Amortized Cost without Allowance	Total
Real estate mortgage	$ –	$ 2,000	$ 2,000
Production and intermediate-term	3,291	(682)	2,609
Agribusiness	–	1,133	1,133
Rural residential real estate	–	123	123
Total	$ 3,291	$ 2,574	$ 5,865

The Association recognized $489 and $47 of interest income on nonaccrual loans during the three months ended June 30, 2024 and June 30, 2023, respectively. The Association recognized $579 and $75 of interest income on nonaccrual loans during the six months ended June 30, 2024 and June 30, 2023, respectively.

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

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

	June 30, 2024
Allowance for Credit Losses on Loans:	
Balance at March 31, 2024	$ 3,974
Charge-offs	(190)
Recoveries	3
Provision for loan losses	1,782
Balance at June 30, 2024	$ 5,569
Allowance for Credit Losses on Unfunded Commitments:	
Balance at March 31, 2024	$ 456
Provision for unfunded commitments	–
Balance at June 30, 2024	$ 456
Total allowance for credit losses	$ 6,025
Allowance for Credit Losses on Loans:	
Balance at December 31, 2023	$ 3,922
Charge-offs	(206)
Recoveries	40
Provision for loan losses	1,813
Balance at June 30, 2024	$ 5,569
Allowance for Credit Losses on Unfunded Commitments:	
Balance at December 31, 2023	$ 375
Provision for unfunded commitments	81
Balance at June 30, 2024	$ 456
Total allowance for credit losses	$ 6,025

Allowance for Credit Losses on Loans:	June 30, 2023
Balance at March 31, 2023	$ 4,122
Charge-offs	–
Recoveries	9
Provision for loan losses	632
Balance at June 30, 2023	$ 4,763
Allowance for Credit Losses on Unfunded Commitments:	
Balance at March 31, 2023	$ 246
Provision for unfunded commitments	23
Balance at June 30, 2023	$ 269
Total allowance for credit losses	$ 5,032
Allowance for Credit Losses on Loans:	
Balance at December 31, 2022	$ 4,294
Cumulative effect of a change in accounting principle	(43)
Balance at January 1, 2023	$ 4,251
Charge-offs	–
Recoveries	13
Provision for loan losses	499
Balance at June 30, 2023	$ 4,763
Allowance for Credit Losses on Unfunded Commitments:	
Balance at December 31, 2022	$ 655
Cumulative effect of a change in accounting principle	(409)
Balance at January 1, 2023	$ 246
Provision for unfunded commitments	23
Balance at June 30, 2023	$ 269
Total allowance for credit losses	$ 5,032

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

Loans held for sale were $0 and $2,618 at June 30, 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 primarily 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 FCA when a security becomes ineligible. Any new bonds purchased under the MRI program are approved on a case-by-case basis by FCA and may have different eligibility requirements. At June 30, 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:

	June 30, 2024	December 31, 2023
	Amortized Cost	
RABs	$ 3,964	$ 3,990

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

	Amortized Cost
In one year or less	$ –
After one year through five years	–
After five years through ten years	–
After ten years	3,964
Total	$ 3,964

All of these investments have 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 June 30, 2024, the Association does not consider any unrealized losses to be credit-related and an allowance for credit losses on investments 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 4.03 percent of the issued stock and allocated retained earnings of the Bank as of June 30, 2024 net of any reciprocal investment. As of that date, the Bank's assets totaled $45.1 billion and shareholders' equity totaled $1.8 billion. The Bank's earnings were $132 million for the first six months of 2024. In addition, the Association held investments of $1,125 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.

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

	June 30, 2024			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 287	$ –	$ –	$ 287
Nonrecurring assets				
Nonaccrual loans	$ –	$ –	$ 958	$ 958
Other property owned	$ –	$ –	$ 583	$ 583

	December 31, 2023			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 295	$ –	$ –	$ 295
Nonrecurring assets				
Nonaccrual loans	$ –	$ –	$ 3,018	$ 3,018
Other property owned	$ –	$ –	$ 33	$ 33

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 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 there were none requiring disclosure through August 8, 2024, which was the date the financial statements were issued.