ArborOne, ACA

SECOND QUARTER 2024

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CERTIFICATION

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

Bryant Sansbury
President and Chief Executive Officer

Brad J. Fjestad
Chief Financial Officer and Treasurer

William Dupree Atkinson
Chairman of the Board

August 8, 2024

ArborOne, ACA

Report on Internal Control Over Financial Reporting

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

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

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

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

Bryant Sansbury

Bryant Sansbury
President and Chief Executive Officer

Brad J. Fjestad

Brad J. Fjestad
Chief Financial Officer and Treasurer

August 8, 2024

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

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short- and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including cash grains, cotton, forestry, and poultry. Farm size varies and many of the borrowers in the region have diversified farming operations. These factors, along with the numerous opportunities for non-ag income in the area, somewhat impact the level of dependency on any one commodity. Approximately 34.87 percent of the portfolio has significant non-ag related income to diversify dependence on agriculture, consisting of lifestyle loans and loans to less than full-time farmers with sources of non-agricultural dependent income. Further, approximately 10.37 percent of the loan portfolio carries federal guarantees as a risk management tool.

The total loan volume of the Association as of June 30, 2024, was $688,311, an increase of $18,063 as compared to $670,248 at December 31, 2023. This increase was mainly the result of new term loans closed in the first half of the year. The Association reported an overall decrease in net participation loan activity during the first six months of 2024 mainly due to an increase in the sale of interests in loans originated by the Association to other Farm Credit lenders in order to diversify risk, manage loan volume, and comply with FCA regulations.

ASSET QUALITY AND LOAN LOSS RESERVES

There is an inherent risk in the extension of any type of credit. However, portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans increased from $2,557 at December 31, 2023, to $3,941 at June 30, 2024. As a percent of total loans, nonaccrual loans were 0.57 percent and 0.38 percent at June 30, 2024 and December 31, 2023, respectively. Of the $1,384 increase, a significant portion was from two large core loan accounts that transferred into nonaccrual status during the first quarter of 2024. The impact of these loans moving to nonaccrual status was partially offset by repayments and other collection efforts of existing nonaccrual loans. With all operating loan renewals completed as of June 30, 2024 and the corresponding credit relationships underwritten and analyzed, the inherent credit risk in the production agriculture dependent loans has been properly identified and reflected in these financial statements given the downward trend of commodity prices.

Association management maintains an allowance for credit losses (ACL) in an amount considered sufficient to absorb estimated 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 $9,459 or 1.37 percent of total loans compared to $10,869 or 1.62 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 $433 and $854 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	$ 11,403	$ 9,590	$ 9,590	$ 22,453	$ 18,955	$ 18,955
Interest Expense	6,081	4,939	4,506	11,632	9,373	8,519
Net Interest Income	5,322	4,651	5,084	10,821	9,582	10,436
Provision for Credit Losses	(533)	(3)	(3)	(1,118)	52	52
Noninterest Income	1,489	1,199	1,199	2,740	2,618	2,618
Noninterest Expense	2,849	2,665	3,098	5,660	5,521	6,375
Net income	$ 4,495	$ 3,188	$ 3,188	$ 9,019	$ 6,627	$ 6,627
Net Interest Margin	3.17%	3.02%	3.30%	3.25%	3.15%	3.43%
Operating Efficiency Ratio	41.83%	45.49%	49.25%	41.74%	45.19%	48.77%

**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 $4,495, an increase of $1,307 as compared to net income of $3,188 for the same period ended in 2023. The main reasons for the increase in net income were the reversal of allowance for credit losses reported in the second quarter of 2024, increased net interest income on higher loan volume, and the decrease in noninterest expense, when excluding the impact for the reporting of technology and software costs mentioned above.

For the three months ended June 30, 2024, net interest income was $5,322 and the net interest margin was 3.17 percent. After adjusting the prior year for the notes payable rate amendment discussed above, net interest income was $5,084, an increase of $238, and the net interest margin was 3.30 percent, a decrease of 13 basis points for the three months ended June 30, 2024. An increase in loan volume in comparison with the same period of 2023 generated additional interest income while higher rates and a competitive environment resulted in a slight decrease in margin.

The reversal of allowance for credit losses for the three months ended June 30, 2024, was $533, an increase of $530 in comparison with the reversal of $3 for the same period ended during the prior year. This change was based on the assessment of our portfolio and a reduction in the provisions needed to cover future losses. Provision for (reversal of) allowance for credit losses for the three months ending June 30, 2024 and 2023 is shown in the following table:

	For the three months ended		
	June 30, 2024	**June 30, 2023**	**Change**
General Reserves	$ 345	$ 113	$ 232
Specific Reserves	(827)	(247)	(580)
Reserve for Unfunded Commitments	(51)	131	(182)
Total Provisions/(Reversals) for Credit Losses	$ (533)	$ (3)	$ (530)

Noninterest income increased $290 to $1,489 during the three months ended June 30, 2024, compared with the same three months of 2023. This increase was primarily due to an increase in patronage refunds from other Farm Credit institutions, and a one-time $162 insurance premium refund the Association received from the Farm Credit System Insurance Corporation (FCSIC) during the second quarter of 2024. A portion of the increase in noninterest income was offset by the deferral of loan fees in accordance with ASC310-20. Loan fees collected are being amortized over the life of the loan and reported in interest income rather than being recognized at the time of collection and reported within noninterest income, as was the case in prior years.

For the three months ended June 30, 2024, noninterest expense was $2,849. After adjusting the prior year for the notes payable rate amendment discussed above, noninterest expense was $3,098, a decrease of $249 for the three months ended June 30, 2024. The most significant factor in this decrease was the reduction in personnel expenses associated with loan origination costs deferred in accordance with ASC 310-20.

For the six months ended June 30, 2024

Net income for the six months ended June 30, 2024, was $9,019, an increase of $2,392 as compared to net income of $6,627 for the same period ended in 2023. The main reasons for the increase in net income for the first six months of 2024 compared to the prior year were similar to those previously mentioned for the three months ended June 30, 2024. A reversal of allowance for credit losses in 2024 compared to a provision of allowance reported in the same period of 2023 had the biggest impact but the increased net interest income on higher loan volume and the decrease in noninterest expense, when excluding the impact for the reporting of technology and software costs mentioned above, were also significant factors.

For the six months ended June 30, 2024, net interest income was $10,821 and the net interest margin was 3.25 percent. After adjusting the prior year for the notes payable rate amendment discussed above, net interest income was $10,436 and the net interest margin was 3.43 percent. When comparing the two periods, net interest income increased by $385, and the net interest margin decreased by 18 basis points for the six months ended June 30, 2024. Increased loan volume in the first six months of 2024 compared to the same period of 2023 generated additional interest income although the margin decreased slightly due to competitive pressure in a higher rate environment.

The reversal of allowance for credit losses for the six months ended June 30, 2024, was $1,118, generating a favorable variance of $1,170 from the provision for credit losses of $52 for the same period ended during the prior year. Provision for (reversal of) allowance for credit losses for the six months ending June 30, 2024 and 2023 is shown in the following table:

	For the six months ended		
	June 30, 2024	**June 30, 2023**	**Change**
General Reserves	$ (1,521)	$ 205	$ (1,726)
Specific Reserves	592	(258)	850
Reserve for Unfunded Commitments	(189)	105	(294)
Total Provisions/(Reversals) for Credit Losses	$ (1,118)	$ 52	$ (1,170)

Noninterest income increased $122 to $2,740 during the first six months of 2024 compared with the first six months of 2023 primarily due to an increase in patronage refunds from other Farm Credit institutions, and the one-time $162 insurance premium refund the Association received from the Farm Credit System Insurance Corporation (FCSIC). The deferral of loan fees in accordance with ASC310-20 offset a portion of the additional income from the patronage and insurance refunds.

For the six months ended June 30, 2024, noninterest expense was $5,660. After adjusting the prior year for the notes payable rate amendment discussed above, noninterest expense was $6,375, a decrease of $715 for the six months ended June 30, 2024. The reduction in personnel expenses associated with loan origination costs deferred in accordance with ASC 310-20 in 2024 was the main reason for the decrease in noninterest expenses when excluding the impact for the reporting of technology and software costs mentioned above.

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 $574,400 as compared to $559,065 at December 31, 2023.

CAPITAL RESOURCES

Total members' equity at June 30, 2024, was $127,252, an increase of $9,178 from a total of $118,074 at December 31, 2023 primarily due to retained current year earnings. Total capital stock and participation certificates were $1,993 on June 30, 2024, compared to $1,983 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%	16.75%	16.93%	17.66%
Common Equity Tier 1 (CET1) Capital Ratio	7.00%	16.55%	16.74%	17.45%
Tier 1 Capital ratio	8.50%	16.55%	16.74%	17.45%
Total Regulatory Capital Ratio	10.50%	17.80%	17.99%	18.71%
Tier 1 Leverage Ratio**	5.00%	16.49%	16.56%	17.36%
Unallocated Retained Earnings (URE) and URE Equivalents	1.50%	10.99%	10.96%	11.33%

**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 1-800-741-7332, writing Sarah Jackson, Corporate Secretary, ArborOne, ACA, P.O. Box 3699, Florence, SC 29502, or accessing the website, ***www.arborone.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.

ArborOne, ACA

Consolidated Balance Sheets

(dollars in thousands)	June 30, 2024	December 31, 2023
	(unaudited)	*(audited)*
Assets		
Cash	**$ 3**	$ 2
Investments in debt securities:		
Held to maturity	**4,827**	4,887
Loans	**688,311**	670,248
Allowance for credit losses on loans	**(9,459)**	(10,869)
Net loans	**678,852**	659,379
Accrued interest receivable	**11,491**	12,343
Equity investments in other Farm Credit institutions	**10,847**	10,970
Premises and equipment, net	**3,897**	3,875
Other property owned	**236**	—
Accounts receivable	**2,436**	4,410
Other assets	**761**	876
Total assets	**$ 713,350**	$ 696,742
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 574,400**	$ 559,065
Accrued interest payable	**2,022**	2,122
Patronage refunds payable	**420**	7,001
Accounts payable	**226**	827
Advanced conditional payments	**5,602**	3,842
Other liabilities	**3,428**	5,811
Total liabilities	**586,098**	578,668
Commitments and contingencies (Note 6)		
Members' Equity		
Capital stock and participation certificates	**1,993**	1,983
Retained earnings		
Allocated	**76,627**	76,627
Unallocated	**48,732**	39,565
Accumulated other comprehensive income (loss)	**(100)**	(101)
Total members' equity	**127,252**	118,074
Total liabilities and members' equity	**$ 713,350**	$ 696,742

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

ArborOne, 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	**$ 11,344**	$ 9,529	**$ 22,332**	$ 18,830
Investments	**59**	61	**121**	125
Total interest income	**11,403**	9,590	**22,453**	18,955
Interest Expense	**6,081**	4,939	**11,632**	9,373
Net interest income	**5,322**	4,651	**10,821**	9,582
Provision for (reversal of) allowance for credit losses	**(533)**	(3)	**(1,118)**	52
Net interest income after provision for (reversal of) allowance for credit losses	**5,855**	4,654	**11,939**	9,530
Noninterest Income				
Loan fees	**52**	235	**174**	648
Fees for financially related services	**9**	3	**46**	83
Patronage refunds from other Farm Credit institutions	**1,243**	961	**2,298**	1,897
Gains (losses) on sales of rural home loans, net	**8**	1	**9**	1
Gains (losses) on sales of premises and equipment, net	**—**	—	**(1)**	(4)
Gains (losses) on other transactions	**14**	(1)	**51**	(11)
Insurance Fund refunds	**162**	—	**162**	—
Other noninterest income	**1**	—	**1**	4
Total noninterest income	**1,489**	1,199	**2,740**	2,618
Noninterest Expense				
Salaries and employee benefits	**1,515**	1,779	**2,959**	3,688
Occupancy and equipment	**96**	88	**198**	192
Insurance Fund premiums	**125**	199	**246**	395
Purchased services	**602**	145	**1,129**	231
Data processing	**19**	21	**59**	53
Other operating expenses	**492**	429	**1,069**	954
(Gains) losses on other property owned, net	**—**	4	**—**	8
Total noninterest expense	**2,849**	2,665	**5,660**	5,521
Net income	**$ 4,495**	$ 3,188	**$ 9,019**	$ 6,627
Other comprehensive income net of tax				
Unrealized gains (losses) on investments	**(2)**	(2)	**(4)**	(4)
Employee benefit plans adjustments	**3**	3	**5**	5
Other comprehensive income (Note 4)	**1**	**1**	**1**	**1**
Comprehensive income	**$ 4,496**	$ 3,189	**$ 9,020**	$ 6,628

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

ArborOne, 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	$ 1,914	$ 76,191	$ 32,619	$ (88)	$ 110,636
Cumulative effect of change in accounting principle			1,411		1,411
Comprehensive income			6,627	1	6,628
Capital stock/participation certificates issued/(retired), net	21				21
Patronage distribution adjustment		436	(499)		(63)
Balance at June 30, 2023	$ 1,935	$ 76,627	$ 40,158	$ (87)	$ 118,633
Balance at December 31, 2023	**$ 1,983**	**$ 76,627**	**$ 39,565**	**$ (101)**	**$ 118,074**
Comprehensive income			**9,019**	**1**	**9,020**
Capital stock/participation certificates issued/(retired), net	**10**				**10**
Patronage distribution adjustment			**148**		**148**
Balance at June 30, 2024	**$ 1,993**	**$ 76,627**	**$ 48,732**	**$ (100)**	**$ 127,252**

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

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

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

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

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

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

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

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

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

Note 2 — Loans and Allowance for Credit Losses

A summary of loans outstanding at period end follows:

	June 30, 2024	December 31, 2023
Real estate mortgage	$ 403,830	$ 388,996
Production and intermediate-term	203,232	199,072
Agribusiness:		
Loans to cooperatives	3,538	2,786
Processing and marketing	34,479	33,741
Farm-related business	17,514	21,698
Rural infrastructure:		
Communication	2,696	2,771
Power and water/waste disposal	6,504	7,216
Rural residential real estate	15,396	13,026
Other:		
International	1,122	942
Total loans	$ 688,311	$ 670,248

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	94.58%	94.72%
OAEM	4.99	4.60
Substandard/doubtful/loss	0.43	0.68
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	92.76%	91.30%
OAEM	6.63	7.16
Substandard/doubtful/loss	0.61	1.54
	100.00%	100.00%
Agribusiness:		
Acceptable	87.94%	89.88%
OAEM	10.77	8.47
Substandard/doubtful/loss	1.29	1.65
	100.00%	100.00%
Rural infrastructure:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	95.17%	94.24%
OAEM	2.98	3.47
Substandard/doubtful/loss	1.85	2.29
	100.00%	100.00%
Other:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	93.60%	93.36%
OAEM	5.82	5.60
Substandard/doubtful/loss	0.58	1.04
	100.00%	100.00%

Accrued interest receivable on loans of $11,448 and $12,296 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	$ 1,870	$ 121	$ 1,991	$ 401,839	$ 403,830	$ –
Production and intermediate-term	422	2,090	2,512	200,720	203,232	–
Agribusiness	–	382	382	55,149	55,531	–
Rural infrastructure	–	–	–	9,200	9,200	–
Rural residential real estate	485	23	508	14,888	15,396	–
Other	–	–	–	1,122	1,122	–
Total	$ 2,777	$ 2,616	$ 5,393	$ 682,918	$ 688,311	$ –

	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	$ 2,413	$ 1,233	$ 3,646	$ 385,350	$ 388,996	$ –
Production and intermediate-term	594	217	811	198,261	199,072	–
Agribusiness	946	205	1,151	57,074	58,225	–
Rural infrastructure	–	–	–	9,987	9,987	–
Rural residential real estate	907	9	916	12,110	13,026	–
Other	–	–	–	942	942	–
Total	$ 4,860	$ 1,664	$ 6,524	$ 663,724	$ 670,248	$ –

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	$ 628	$ 301	$ 929
Production and intermediate-term	1,350	1,072	2,422
Agribusiness	567	–	567
Rural residential real estate	–	23	23
Total	$ 2,545	$ 1,396	$ 3,941

	December 31, 2023		
Nonaccrual loans:	Amortized Cost with Allowance	Amortized Cost without Allowance	Total
Real estate mortgage	$ 1,220	$ 318	$ 1,538
Production and intermediate-term	211	(30)	181
Agribusiness	697	115	812
Rural residential real estate	–	26	26
Total	$ 2,128	$ 429	$ 2,557

The Association recognized $81 and $95 of interest income on nonaccrual loans during the three months ended June 30, 2024 and June 30, 2023, respectively. The Association recognized $243 and $494 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	$ 10,061
Charge-offs	(245)
Recoveries	125
Provision for loan losses	(482)
Balance at June 30, 2024	$ 9,459
Allowance for Credit Losses on Unfunded Commitments:	
Balance at March 31, 2024	$ 459
Provision for unfunded commitments	(51)
Balance at June 30, 2024	$ 408
Total allowance for credit losses	$ 9,867
Allowance for Credit Losses on Loans:	
Balance at December 31, 2023	$ 10,869
Charge-offs	(785)
Recoveries	303
Provision for loan losses	(928)
Balance at June 30, 2024	$ 9,459
Allowance for Credit Losses on Unfunded Commitments:	
Balance at December 31, 2023	$ 598
Provision for unfunded commitments	(190)
Balance at June 30, 2024	$ 408
Total allowance for credit losses	$ 9,867

Allowance for Credit Losses on Loans:	June 30, 2023
Balance at March 31, 2023	$ 11,233
Charge-offs	(26)
Recoveries	57
Provision for loan losses	(134)
Balance at June 30, 2023	$ 11,130
Allowance for Credit Losses on Unfunded Commitments:	
Balance at March 31, 2023	$ 346
Provision for unfunded commitments	131
Balance at June 30, 2023	$ 477
Total allowance for credit losses	$ 11,607
Allowance for Credit Losses on Loans:	
Balance at December 31, 2022	$ 11,852
Cumulative effect of a change in accounting principle	(1,173)
Balance at January 1, 2023	$ 10,679
Charge-offs	(76)
Recoveries	579
Provision for loan losses	(52)
Balance at June 30, 2023	$ 11,130
Allowance for Credit Losses on Unfunded Commitments:	
Balance at December 31, 2022	$ 611
Cumulative effect of a change in accounting principle	(238)
Balance at January 1, 2023	$ 373
Provision for unfunded commitments	104
Balance at June 30, 2023	$ 477
Total allowance for credit losses	$ 11,607

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

The Association had no loans held for sale at June 30, 2024 and December 31, 2023.

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 other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, 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	$ 4,827	$ 4,887

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	4,827
Total	$ 4,827

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 1.99 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 $362 related to other Farm Credit institutions.

Note 4 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	**2023**	**2024**	**2023**
Unrealized gains (losses) on Investments				
Balance at beginning of period	$ 104	$ 112	$ 106	$ 114
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	(2)	(2)	(4)	(4)
Net current period other comprehensive income	(2)	(2)	(4)	(4)
Balance at end of period	$ 102	$ 110	$ 102	$ 110
Employee Benefit Plans:				
Balance at beginning of period	$ (205)	$ (200)	$ (207)	$ (202)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	3	3	5	5
Net current period other comprehensive income	3	3	5	5
Balance at end of period	$ (202)	$ (197)	$ (202)	$ (197)
Accumulated Other Comprehensive Income				
Balance at beginning of period	$ (101)	$ (88)	$ (101)	$ (88)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	1	1	1	1
Net current period other comprehensive income	1	1	1	1
Balance at end of period	$ (100)	$ (87)	$ (100)	$ (87)

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

	Three Months Ended June 30,		Six Months Ended June 30,		
	2024	**2023**	**2024**	**2023**	**Income Statement Line Item**
Investment Securities:					
Amortization	$ 2	$ 2	$ 4	$ 4	Interest income on investments
Net amounts reclassified	2	2	4	4	
Defined Benefit Pension Plans:					
Periodic pension costs	(3)	(3)	(5)	(5)	Salaries and employee benefits
Net amounts reclassified	(3)	(3)	(5)	(5)	
Total reclassifications for period	$ (1)	$ (1)	$ (1)	$ (1)	

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

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

	June 30, 2024			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 633	$ –	$ –	$ 633
Nonrecurring assets				
Nonaccrual loans	$ –	$ –	$ 1,682	$ 1,682
Other property owned	$ –	$ –	$ 236	$ 236

	December 31, 2023			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 621	$ –	$ –	$ 621
Nonrecurring assets				
Nonaccrual loans	$ –	$ –	$ 1,376	$ 1,376
Other property owned	$ –	$ –	$ –	$ –

Valuation Techniques

Assets held in trust funds

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

Nonaccrual loans

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

Other property owned

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

Note 6 — Commitments and Contingent Liabilities

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

Note 7 — Subsequent Events

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