AgCarolina 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 AgCarolina 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.

S. Stuart Pierce, Jr.
Chairman of the Board

Evan Kleinhans
Chief Executive Officer

Charles M. Hester
Chief Financial Officer

August 8, 2024

AgCarolina 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 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.

Evan Kleinhans
Chief Executive Officer

Charles M. Hester
Chief Financial Officer

August 8, 2024

AgCarolina 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 AgCarolina 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.

MERGER ACTIVITY

Cape Fear Farm Credit, ACA, merged with and into AgCarolina Farm Credit, ACA, (the Merger) effective January 1, 2023. AgCarolina Farm Credit, ACA retained its name and is headquartered in Greenville, NC.

The effects of the Merger are included in our financial position, results of operations and related metrics beginning January 1, 2023. Prior year results are not relative of the Merger executed on January 1, 2023. Results of operations and equity reflect the results of legacy AgCarolina Farm Credit, ACA, through December 31, 2022, and the merged Association on January 1, 2023 and thereafter. Upon the closing of the Merger, loans increased $1.1 billion, liabilities increased $928.9 million and equity increased $194.2 million. These amounts include adjustments to fair value, as required by accounting standards for business combinations. See further information regarding the Merger within *Note 7 – Merger Activity*, of the Notes to the Consolidated Financial Statements.

The Merger was accounted for under the acquisition method of accounting guidance in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification 805 Business Combinations (ASC 805). As the accounting acquirer, AgCarolina Farm Credit, ACA recognized the identifiable assets acquired and liabilities assumed in the Merger as of the effective date at their respective fair values. The fair value of the net identifiable assets was substantially equal to the fair value of the equity interest exchanged in the Merger. As a result, no goodwill was recorded.

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 encompasses a well-diversified range of agricultural commodities, including poultry, field crops, swine and forestry. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's portfolio. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the opportunities for non-farm income, lessens the level of dependency on any single given commodity. Concentration risk is further mitigated by a portfolio of participation loans purchased or originated and sold as well as through the Association's use of USDA and Farmer Mac guarantees.

The total loan volume of the Association as of June 30, 2024, was $2,699,849, an increase of $86,627 or 3.31 percent as compared to $2,613,222 at December 31, 2023. The increase in loan volume was primarily driven by growth in the Association's production and intermediate term portfolio, as well as the agribusiness portfolio.

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 $12,135 at December 31, 2023, to $10,145 at June 30, 2024. As a percent of total loans, nonaccrual loans were 0.38 percent and 0.46 percent at June 30, 2024 and December 31, 2023, respectively. The decrease in nonaccrual loans was attributed to a combination of liquidations, pay downs, and transfers to other property owned (OPO) or accrual status. OPO increased from $0 at December 31, 2023 to $722 at June 30, 2024.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb estimated current and expected credit losses over the financial assets expected life. The allowance for loan losses at June 30, 2024, was $13,635 or 0.51 percent of total loans compared to $12,418 or 0.48 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 allowance for loan losses within the Association's Annual Report and discussion of significant provision for loan losses 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 $1,733 and $3,356 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	$ 46,858	$ 42,172	$ 42,172	$ 91,943	$ 82,647	$ 82,647
Interest Expense	23,510	20,472	18,739	45,118	38,578	35,222
Net Interest Income	23,348	21,700	23,433	46,825	44,069	47,425
Provision for Loan Losses	291	1,546	1,546	1,655	10,127	10,127
Noninterest Income	7,369	6,600	6,600	14,838	13,531	13,531
Noninterest Expense	12,934	11,562	13,295	25,962	22,515	25,871
Provision for Income Taxes	19	19	19	38	38	38
Net income	$ 17,473	$ 15,173	$ 15,173	$ 34,008	$ 24,920	$ 24,920
Net Interest Margin	3.56%	3.55%	3.83%	3.62%	3.67%	3.95%
Operating Efficiency Ratio	42.10%	40.84%	44.26%	42.10%	39.08%	42.43%

**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 $17,473, an increase of $2,300 or 15.16 percent as compared to net income of $15,173 for the same period ended in 2023. Major changes in the components of net income are identified as follows:

For the three months ended June 30, 2024, net interest income was $23,348 and the net interest margin was 3.56 percent. After adjusting the prior year for the notes payable rate amendment discussed above, net interest income was $23,433, a decrease of $85 or 0.36 percent, and the net interest margin was 3.83 percent, a decrease of 27 basis points for the three months ended June 30, 2024. The decline in net interest margin was primarily driven by a decrease in the impact of the fair value merger valuation adjustment. The decrease in net interest income from the prior year after factoring in the rate change was primarily due to a $4,771 increase in interest expense, offset by a $4,687 increase in interest income on loans.

The provision for loan losses for the three months ended June 30, 2024, was $291, a decrease of $1,255 or 81.18 percent from the provision for loan losses of $1,546 for the same period ended during the prior year.

Noninterest income increased $769 or 11.65 percent to $7,369 during the three months ended June 30, 2024 compared with the three months ended June 30, 2023 primarily due to a $718 increase in insurance fund refunds and a $273 increase in loan fee income, partially offset by a $188 decrease in patronage refunds from other Farm Credit institutions and a $44 decrease in gains on other transactions.

For the three months ended June 30, 2024, noninterest expense was $12,934. After adjusting the prior year for the notes payable rate amendment discussed above, noninterest expense was $13,295, a decrease of $361 or 2.72 percent for the three months ended June 30, 2024. The decrease was primarily due to a $362 decrease in insurance fund premiums, a $232 decrease in other operating expenses, and a $60 decrease in data processing expenses, partially offset by a $303 increase in salaries and employee benefits.

For the six months ended June 30, 2024

Net income for the six months ended June 30, 2024, was $34,008, an increase of $9,088 or 36.47 percent as compared to net income of $24,920 for the same period ended in 2023. Major changes in the components of net income are identified as follows:

For the six months ended June 30, 2024, net interest income was $46,825 and the net interest margin was 3.62 percent. After adjusting the prior year for the notes payable rate amendment discussed above, net interest income was $47,425, a decrease of $600 or 1.27 percent, and the net interest margin was 3.95 percent, a decrease of 33 basis points for the six months ended June 30, 2024. The decline in net interest margin was primarily driven by a decrease in the impact of the fair value merger valuation adjustment. The decrease in net interest income from the prior year after factoring in the rate change was primarily due to a $9,896 increase in interest expense, offset by a $9,299 increase in interest income on loans.

The provision for loan losses for the six months ended June 30, 2024, was $1,655, a decrease of $8,472 or 83.66 percent from the provision for loan losses of $10,127 for the same period ended during the prior year. This decrease was primarily due to the merger accounting for the allowance for credit losses resulting from the merger with Cape Fear Farm Credit in the prior year.

Noninterest income increased $1,307 or 9.66 percent to $14,838 during the first six months of 2024 compared with the first six months of 2023 primarily due to a $718 increase in insurance fund refunds, a $504 increase in loan fee income, a $407 increase in gains on other transactions, and a $228 increase in patronage refunds from other Farm Credit institutions, partially offset by a $576 decrease in fees for financially related services.

For the six months ended June 30, 2024, noninterest expense was $25,962. After adjusting the prior year for the notes payable rate amendment discussed above, noninterest expense was $25,871, an increase of $91 or 0.35 percent for the six months ended June 30, 2024. The increase was primarily due to $953 increase in salaries and employee benefits and a $111 increase in occupancy and equipment, partially offset by a $696 decrease in insurance fund premiums, a $171 decrease in other operating expenses, and a $135 decrease in purchased services.

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 $2,244,118 as compared to $2,155,900 at December 31, 2023.

CAPITAL RESOURCES

Total members' equity at June 30, 2024, was $532,630, an increase of $32,745 or 6.55 percent from a total of $499,885 at December 31, 2023. This increase is attributed to total comprehensive income of $34,015 for the first six months ended June 30, 2024, offset by net member capital stock and participation certificates retired of $1,270. Total capital stock and participation certificates were $25,458 on June 30, 2024, compared to $26,442 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%	17.50%	18.16%	18.87%
Common Equity Tier 1 (CET1) Capital Ratio	7.00%	16.75%	17.28%	17.74%
Tier 1 Capital ratio	8.50%	16.75%	17.28%	17.74%
Total Regulatory Capital Ratio	10.50%	17.25%	17.86%	18.26%
Tier 1 Leverage Ratio**	5.00%	17.09%	17.63%	17.94%
Unallocated Retained Earnings (URE) and URE Equivalents	1.50%	16.82%	17.37%	17.67%

**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 1-472-210-3281, ext. 3281, or writing Charles M. Hester, Chief Financial Officer, AgCarolina Farm Credit, ACA, P. O. Box 14789, Raleigh, NC 27620, or accessing the website, *www.agcarolina.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.

AgCarolina Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)		June 30, 2024		December 31, 2023
		(unaudited)		*(audited)*
Assets				
Cash	**$**	**15**	$	4
Investments in debt securities:				
Held to maturity		**2,362**		2,409
Loans		**2,699,849**		2,613,222
Allowance for loan losses		**(13,635)**		(12,418)
Net loans		**2,686,214**		2,600,804
Loans held for sale		**—**		3,632
Accrued interest receivable		**36,912**		37,921
Equity investments in other Farm Credit institutions		**42,372**		42,599
Premises and equipment, net		**20,112**		20,321
Other property owned		**722**		—
Accounts receivable		**10,860**		22,887
Other assets		**4,041**		4,092
Total assets	**$**	**2,803,610**	$	2,734,669
Liabilities				
Notes payable to AgFirst Farm Credit Bank	**$**	**2,244,118**	$	2,155,900
Accrued interest payable		**7,607**		7,737
Patronage refunds payable		**161**		49,154
Accounts payable		**2,055**		4,346
Advanced conditional payments		**91**		4
Other liabilities		**16,948**		17,643
Total liabilities		**2,270,980**		2,234,784
Commitments and contingencies (Note 6)				
Members' Equity				
Capital stock and participation certificates		**25,458**		26,442
Additional paid-in-capital		**65,531**		65,531
Retained earnings				
Allocated		**333,883**		333,127
Unallocated		**107,938**		74,972
Accumulated other comprehensive income (loss)		**(180)**		(187)
Total members' equity		**532,630**		499,885
Total liabilities and members' equity	**$**	**2,803,610**	$	2,734,669

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

AgCarolina 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	**$ 46,822**	$ 42,135	**$ 91,872**	$ 82,573
Investments	**36**	37	**71**	74
Total interest income	**46,858**	42,172	**91,943**	82,647
Interest Expense	**23,510**	20,472	**45,118**	38,578
Net interest income	**23,348**	21,700	**46,825**	44,069
Provision for loan losses	**291**	1,546	**1,655**	10,127
Net interest income after provision for loan losses	**23,057**	20,154	**45,170**	33,942
Noninterest Income				
Loan fees	**1,546**	1,273	**3,230**	2,726
Fees for financially related services	**13**	7	**20**	596
Patronage refunds from other Farm Credit institutions	**5,084**	5,272	**10,824**	10,596
Gains (losses) on sales of rural home loans, net	**3**	—	**16**	—
Gains (losses) on sales of premises and equipment, net	**2**	—	**20**	10
Gains (losses) on other transactions	**3**	47	**8**	(399)
Insurance Fund refunds	**718**	—	**718**	—
Other noninterest income	**—**	1	**2**	2
Total noninterest income	**7,369**	6,600	**14,838**	13,531
Noninterest Expense				
Salaries and employee benefits	**7,570**	7,267	**15,458**	14,505
Occupancy and equipment	**515**	428	**1,018**	907
Insurance Fund premiums	**544**	906	**1,067**	1,763
Purchased services	**2,256**	618	**4,434**	1,213
Data processing	**189**	249	**420**	386
Other operating expenses	**1,859**	2,091	**3,564**	3,735
(Gains) losses on other property owned, net	**1**	3	**1**	6
Total noninterest expense	**12,934**	11,562	**25,962**	22,515
Income before income taxes	**17,492**	15,192	**34,046**	24,958
Provision for income taxes	**19**	19	**38**	38
Net income	**$ 17,473**	$ 15,173	**$ 34,008**	$ 24,920
Other comprehensive income net of tax				
Employee benefit plans adjustments	**4**	3	**7**	7
Comprehensive income	**$ 17,477**	$ 15,176	**$ 34,015**	$ 24,927

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

AgCarolina Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2022	$ 35,739	$ —	$ 194,581	$ 70,958	$ —	$ 301,278
Cumulative effect of change in accounting principle				4,135		4,135
Comprehensive income				24,920	7	24,927
Capital stock/participation certificates issued/(retired), net	(7,945)					(7,945)
Dividends declared/paid	281			(281)		—
Equity re-characterized due to merger	2,593	65,531	126,268		(194)	194,198
Patronage distribution adjustment			749	(755)		(6)
Balance at June 30, 2023	$ 30,668	$ 65,531	$ 321,598	$ 98,977	$ (187)	$ 516,587
Balance at December 31, 2023	**$ 26,442**	**$ 65,531**	**$ 333,127**	**$ 74,972**	**$ (187)**	**$ 499,885**
Comprehensive income				**34,008**	**7**	**34,015**
Capital stock/participation certificates issued/(retired), net	**(1,270)**					**(1,270)**
Dividends declared/paid	**286**			**(286)**		**—**
Patronage distribution adjustment			**756**	**(756)**		**—**
Balance at June 30, 2024	**$ 25,458**	**$ 65,531**	**$ 333,883**	**$ 107,938**	**$ (180)**	**$ 532,630**

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

AgCarolina 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 AgCarolina 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.

Effective January 1, 2023, the Association merged with Cape Fear Farm Credit, ACA. See Note 7, *Merger Activity*, for further information.

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 loan losses (Note 2, *Loans and Allowance for Loan 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 Loan Losses

A summary of loans outstanding at period end follows:

	June 30, 2024	December 31, 2023
Real estate mortgage	$ 1,508,484	$ 1,512,362
Production and intermediate-term	821,351	763,728
Agribusiness:		
Loans to cooperatives	34,727	40,299
Processing and marketing	161,277	128,145
Farm-related business	66,318	65,671
Rural infrastructure:		
Communication	22,759	23,207
Power and water/waste disposal	16,592	14,792
Rural residential real estate	60,411	57,200
Other:		
International	4,150	3,565
Lease receivables	3,737	4,209
Other (including mission related)	43	44
Total loans	$ 2,699,849	$ 2,613,222

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	94.25%	95.99%
OAEM	2.71	2.91
Substandard/doubtful/loss	3.04	1.10
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	89.24%	93.16%
OAEM	4.76	4.35
Substandard/doubtful/loss	6.00	2.49
	100.00%	100.00%
Agribusiness:		
Acceptable	92.87%	96.65%
OAEM	4.35	3.03
Substandard/doubtful/loss	2.78	0.32
	100.00%	100.00%
Rural infrastructure:		
Acceptable	99.19%	97.41%
OAEM	0.81	2.59
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	97.06%	97.68%
OAEM	2.14	1.90
Substandard/doubtful/loss	0.80	0.42
	100.00%	100.00%
Other:		
Acceptable	100.00%	98.68%
OAEM	–	0.47
Substandard/doubtful/loss	–	0.85
	100.00%	100.00%
Total loans:		
Acceptable	92.75%	95.29%
OAEM	3.44	3.31
Substandard/doubtful/loss	3.81	1.40
	100.00%	100.00%

Accrued interest receivable on loans of $36,900 and $37,909 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	$ 5,040	$ 3,273	$ 8,313	$ 1,500,171	$ 1,508,484	$ –
Production and intermediate-term	3,946	1,914	5,860	815,491	821,351	–
Agribusiness	2,119	1,218	3,337	258,985	262,322	–
Rural infrastructure	–	–	–	39,351	39,351	–
Rural residential real estate	637	77	714	59,697	60,411	–
Other	–	–	–	7,930	7,930	–
Total	$ 11,742	$ 6,482	$ 18,224	$ 2,681,625	$ 2,699,849	$ –

	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	$ 4,801	$ 3,875	$ 8,676	$ 1,503,686	$ 1,512,362	$ –
Production and intermediate-term	5,956	3,705	9,661	754,067	763,728	–
Agribusiness	4,449	783	5,232	228,883	234,115	–
Rural infrastructure	–	–	–	37,999	37,999	–
Rural residential real estate	404	77	481	56,719	57,200	–
Other	170	66	236	7,582	7,818	–
Total	$ 15,780	$ 8,506	$ 24,286	$ 2,588,936	$ 2,613,222	$ –

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

	June 30, 2024		
Nonaccrual loans:	Amortized Cost with Allowance	Amortized Cost without Allowance	Total
Real estate mortgage	$ 1,867	$ 3,633	$ 5,500
Production and intermediate-term	2,476	650	3,126
Agribusiness	1,194	145	1,339
Rural residential real estate	77	103	180
Total	$ 5,614	$ 4,531	$ 10,145

	December 31, 2023		
Nonaccrual loans:	Amortized Cost with Allowance	Amortized Cost without Allowance	Total
Real estate mortgage	$ 2,031	$ 4,454	$ 6,485
Production and intermediate-term	3,680	1,045	4,725
Agribusiness	266	517	783
Rural residential real estate	77	–	77
Other	30	35	65
Total	$ 6,084	$ 6,051	$ 12,135

The Association recognized $505 and $595 of interest income on nonaccrual loans during the three months ended June 30, 2024 and June 30, 2023, respectively. The Association recognized $587 and $712 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 2023.

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

		June 30, 2024
Allowance for Loan Losses:		
Balance at March 31, 2024	$	13,771
Charge-offs		(437)
Recoveries		10
Provision for loan losses		291
Balance at June 30, 2024	$	13,635
Allowance for Loan Losses:		
Balance at December 31, 2023	$	12,418
Charge-offs		(452)
Recoveries		14
Provision for loan losses		1,655
Balance at June 30, 2024	$	13,635

		June 30, 2023
Allowance for Loan Losses:		
Balance at March 31, 2023	$	12,794
Charge-offs		(85)
Recoveries		38
Provision for loan losses		1,457
Balance at June 30, 2023	$	14,204
Allowance for Loan Losses:		
Balance at December 31, 2022	$	9,034
Cumulative effect of a change in accounting principle		(4,357)
Balance at January 1, 2023	$	4,677
Charge-offs		(172)
Recoveries		54
Provision for loan losses		9,645
Balance at June 30, 2023	$	14,204

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.

The following tables show the amortized cost basis at the end of the reporting period for loan modifications granted to borrowers experiencing financial difficulty during the three and six months ended June 30, 2024, disaggregated by loan type and type of modification granted:

	For the Three Months Ended June 30, 2024			
	Maturity Extension	Payment Deferral	Total	Percentage of Total by Loan Type
Real estate mortgage	$ 3,712	$ 8,158	$ 11,870	0.79%
Production and intermediate-term	8,340	3,389	11,729	1.43%
Total	$ 12,052	$ 11,547	$ 23,599	0.87%

	For the Six Months Ended June 30, 2024			
	Maturity Extension	Payment Deferral	Total	Percentage of Total by Loan Type
Real estate mortgage	$ 3,712	$ 8,158	$ 11,870	0.79%
Production and intermediate-term	8,811	3,389	12,200	1.49%
Total	$ 12,523	$ 11,547	$ 24,070	0.89%

The following table describes the financial effects of the modifications made to borrowers experiencing financial difficulty during the three months ended June 30, 2024:

	Maturity Extension
	Financial Effect
Real estate mortgage	Added a weighted average 1.29 years to the life of loans
Production and intermediate-term	Added a weighted average 1.19 years to the life of loans

	Payment Deferral
	Financial Effect
Real estate mortgage	Added a weighted average 0.33 years to the life of loans
Production and intermediate-term	Added a weighted average 0.33 years to the life of loans

The following table describes the financial effects of the modifications made to borrowers experiencing financial difficulty during the six months ended June 30, 2024:

	Maturity Extension
	Financial Effect
Real estate mortgage	Added a weighted average 1.29 years to the life of loans
Production and intermediate-term	Added a weighted average 1.10 years to the life of loans

	Payment Deferral
	Financial Effect
Real estate mortgage	Added a weighted average 0.33 years to the life of loans
Production and intermediate-term	Added a weighted average 0.33 years to the life of loans

There were no modifications to distressed borrowers that occurred during the previous twelve months and for which there was a subsequent payment default during the period.

The following table sets forth an aging analysis of loans to borrowers experiencing financial difficulty that were modified during the twelve months prior to June 30, 2024:

	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Real estate mortgage	$ 12,015	$ –	$ –	$ 12,015
Production and intermediate-term	13,572	–	415	13,987
Total	$ 25,587	$ –	$ 415	$ 26,002

Accrued interest receivable at the end of the reporting period related to loan modifications granted to borrowers experiencing financial difficulty during the three and six months ended June 30, 2024 was $1,213 and $1,216, respectively. Additional commitments to lend to borrowers experiencing financial difficulties whose loans have been modified were $85 and $0 at June 30, 2024 and December 31, 2023, respectively.

Modified loans to borrowers experiencing financial difficulty and activity on these loans were not material during the three or six months ended June 30, 2023. There were no material commitments to lend to borrowers experiencing financial difficulty whose loans have been modified at June 30, 2023. There were no modifications to distressed borrowers that occurred during the previous six months and for which there was a subsequent payment default during the period.

Loans held for sale were $0 and $3,632 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 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	$ 2,362	$ 2,409

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	2,362
Total	$ 2,362

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 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 7.80 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 $1,269 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
Employee Benefit Plans:				
Balance at beginning of period	$ (184)	$ (190)	$ (187)	$ –
Equity re-characterized due to merger	–	–	–	(194)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	4	3	7	7
Net current period other comprehensive income	4	3	7	7
Balance at end of period	$ (180)	$ (187)	$ (180)	$ (187)

	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
Defined Benefit Pension Plans:					
Periodic pension costs	$ (4)	$ (3)	$ (7)	$ (7)	Salaries and employee benefits
Net amounts reclassified	$ (4)	$ (3)	$ (7)	$ (7)	

(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 could also 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.

	June 30, 2024			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 3,156	$ –	$ –	$ 3,156
Nonrecurring assets				
Nonaccrual loans*	$ –	$ –	$ 4,616	$ 4,616
Other property owned	$ –	$ –	$ 722	$ 722

	December 31, 2023			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 3,581	$ –	$ –	$ 3,581
Nonrecurring assets				
Nonaccrual loans**	$ –	$ –	$ 5,370	$ 5,370
Other property owned	$ –	$ –	$ –	$ –

**Carrying value of nonaccrual loans is the balance of loans with a related specific reserve ($5,614) less related specific reserves ($1,900) associated with nonaccrual loans plus nonaccrual loans with no specific reserve with an associated charge-off ($902).*

***Carrying value of nonaccrual loans is the balance of loans with a related specific reserve ($6,084) less related specific reserves ($2,044) associated with nonaccrual loans plus nonaccrual loans with no specific reserve with an associated charge-off ($1,330).*

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, and are therefore classified as Level 3.

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 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 — Merger Activity

Effective January 1, 2023, Cape Fear Farm Credit, ACA (Cape Fear) merged with and into AgCarolina Farm Credit, ACA (AgCarolina) to form the merged Association. The effects of the merger are included in the Association's results of operations, statement of condition, average balances, and related metrics beginning January 1, 2023.

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of merger, but not for previous periods. The Consolidated Balance Sheet reflects the merged balances as of June 30, 2024 and December 31, 2023. The Consolidated Statements of Income and Members' Equity include the merged Association after January 1, 2023. Information in the Notes to the Consolidated Financial Statements reflects balances of the merged Associations as of June 30, 2024 and December 31, 2023, and in the case of transactional activity reflects AgCarolina prior to January 1, 2023 and the merged Association after January 1, 2023.

For further information, see Note 14, *Merger Activity*, in the Notes to the Consolidated Financial Statements of the 2023 Annual Report.

Note 8 — 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.