

AGTRUST, ACA

**2024
Quarterly Report**

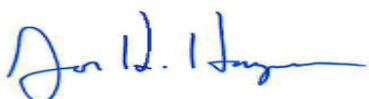


AgTrustTM
FARM CREDIT

For the Quarter Ended March 31, 2024

REPORT OF MANAGEMENT

The undersigned certify that we have reviewed this report, that it has been prepared 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.



Joe H. Hayman, Chief Executive Officer

May 10, 2024



Brent Neuhaus, Chairman, Board of Directors

May 10, 2024



Nicholas Acosta, Chief Financial Officer

May 10, 2024



David Conrad, Chairman, Audit Committee

May 10, 2024

First quarter 2024 Financial Report

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AGTRUST, ACA
MANAGEMENT’S DISCUSSION AND ANALYSIS

The following discussion and analysis reviews the consolidated financial performance of AgTrust, ACA, (ACA) including its wholly-owned subsidiaries AgTrust, FLCA and AgTrust, PCA, (collectively referred to herein as the “Association”) for the three months ended March 31, 2024. The discussion should be read in conjunction with the Association’s Annual Report to Stockholders, and notes thereto, for the year ended December 31, 2023. Operating results for the three months ended March 31, 2024, are not necessarily indicative of the results for the year ending December 31, 2024, or any future period.

The Association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

Since 1917, the Association and its predecessors have provided its members with quality financial services. The Board and management remain committed to maintaining the financial integrity of the Association while offering competitive loan products that meet the financial needs of agricultural producers.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association’s Audit Committee.

Merger Activity:

Effective December 1, 2023, Ag New Mexico, Farm Credit Services, ACA and its PCA and FLCA subsidiaries (Ag New Mexico) merged with and into Lone Star, ACA (the continuing association) and its PCA and FLCA subsidiaries (Lone Star), whereupon all shareholders of Ag New Mexico became shareholders of the continuing association. Additionally, upon the effective date of the merger, the continuing association and its PCA and FLCA subsidiaries changed their name to AgTrust, ACA, AgTrust, PCA and AgTrust, FLCA, respectively (AgTrust). The continuing association is headquartered in Fort Worth, Texas.

Patronage Refunds by Association:

In December 2023, the Board declared a cash patronage in the amount of \$26,756,494 paid in March 2024, based on 2023 patronage-sourced earnings. The patronage was paid to eligible borrowers based on their net interest margin of all Patronage Transactions outstanding for the year ending December 31, 2023.

Patronage Distributions Received from the Farm Credit Bank of Texas (FCBT or Bank):

On a monthly basis the Association accrues income for the direct loan earnings patronage it expects to receive in December of each year from FCBT. The distribution of the direct loan earnings patronage is at the discretion of FCBT. The Association’s accrual rate is based on historical information and expectations set forth in FCBT’s annual strategic business plan. During the quarter ended September 30, 2023, the Association was informed of FCBT’s inability to meet expectations as it relates to earnings, capital and other profitability metrics, which negatively impacts FCBT’s ability to distribute the direct loan earnings patronage at historical or previously planned levels. Consequently, the Association reduced the accrual of direct loan earnings patronage income for the remainder of 2023 to align with FCBT’s revised expectations. In December 2023, the Board of Directors of FCBT declared the reduced direct note patronage of approximately 28 basis points on the average daily balance of the Association’s direct loan with FCBT. Additionally, this distribution was split on a 70/30 basis between cash and allocated equities in FCBT. The total amount received was \$5,938,045 of which \$4,156,632 was cash and \$1,781,414 was allocated equities in FCBT. This reduced the earnings available to the Association for its own patronage distributions.

| | 2023 |
|--|----------------------------|
| Direct loan patronage | \$ 5,938,045 |
| Stock investment in FCBT | 1,327,293 |
| Participation's patronage | 1,171,798 |
| Capitalized participation pool | 61,190 |
| Agricultural mortgage backed securities investment patronage | 49,437 |
| Total Patronage Received | <u>\$ 8,547,763</u> |

Effective in 2024, FCBT has implemented a sustainable growth charge which reduces the projected direct note patronage by 25 basis points. The Association has adjusted its monthly accrual accordingly.

Loan Portfolio:

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. These loan products are available to eligible borrowers with competitive variable, fixed, and adjustable interest rates. Commercial loans primarily consist of operating loans and short-term loans for working capital, equipment and livestock. Mortgage loans primarily consist of 5- to 30- year maturities. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower. The Association's loan portfolio consists of long-term farm mortgage loans, production and intermediate-term loans, farm-related business loans, rural residential and rural infrastructure loans through purchased participations.

Total loans outstanding at March 31, 2024, including nonaccrual loans, were \$2,913,441,228 compared to \$2,844,533,954 at December 31, 2023, reflecting an increase of 2.4 percent. Total nonaccrual loans outstanding at March 31, 2024, were \$10,625,967 compared to \$10,570,087 at December 31, 2023. Nonaccrual loans as a percentage of total loans outstanding were 0.4 percent at March 31, 2024, compared to 0.4 percent at December 31, 2023.

The Association recorded \$3,646 in recoveries and no charge-offs for the quarter ended March 31, 2024, and \$2,114 in recoveries and no charge-offs for the same period in 2023. The Association's allowance for loan losses was 0.3 percent and 0.3 percent of total loans outstanding as of March 31, 2024, and December 31, 2023, respectively.

Risk Exposure:

Nonperforming assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest and other property owned, net. The following table illustrates the Association's components and trends of nonperforming assets.

| | March 31, 2024 | | December 31, 2023 | |
|---------------------------|----------------|--------|-------------------|--------|
| | Amount | % | Amount | % |
| Nonaccrual | \$ 10,625,967 | 100.0% | \$ 10,570,087 | 100.0% |
| Other property owned, net | 2,775 | 0.0% | 2,775 | 0.0% |
| Total | \$ 10,628,742 | 100.0% | \$ 10,572,862 | 100.0% |

At March 31, 2024, and December 31, 2023, the Association had no loans that are past due 90 days or more and still accruing interest.

Results of Operations:

The Association had net income of \$13,976,559 for the three months ended March 31, 2024, as compared to net income of \$12,522,405 for the same period in 2023, reflecting an increase of 11.6 percent. Net interest income was \$21,139,340 for the three months ended March 31, 2024, as compared to \$17,167,240 for the same period in 2023, reflecting an increase of 23.1 percent.

| | Three Months Ended | | | |
|-------------------------------|--------------------|---------------|------------------|---------------|
| | March 31, 2024 | | March 31, 2023 | |
| | Average Balance | Interest | Average Balance | Interest |
| Loans | \$ 2,876,839,363 | \$ 46,061,187 | \$ 2,507,105,359 | \$ 32,533,357 |
| Total interest-earning assets | 2,876,839,363 | 46,061,187 | 2,507,105,359 | 32,533,357 |
| Interest-bearing liabilities | 2,443,593,887 | 24,921,847 | 2,108,773,903 | 15,366,117 |
| Impact of capital | \$ 433,245,476 | | \$ 398,331,456 | |
| Net interest income | | \$ 21,139,340 | | \$ 17,167,240 |

| | 2024 | 2023 |
|--|---------------|---------------|
| | Average Yield | Average Yield |
| Yield on loans | 6.44% | 5.26% |
| Total yield on interest-earning assets | 6.44% | 5.26% |
| Cost of interest-bearing liabilities | 4.10% | 2.96% |
| Interest rate spread | 2.34% | 2.30% |

| Three months ended: | | | |
|--|---------------------|---------------------|----------------------|
| March 31, 2024 vs. March 31, 2023 | | | |
| Increase (decrease) due to | | | |
| | Volume | Rate | Total |
| Interest income - loans | \$ 4,837,916 | \$ 8,689,914 | \$ 13,527,830 |
| Total interest income | 4,837,916 | 8,689,914 | 13,527,830 |
| Interest expense | 2,460,133 | 7,095,597 | 9,555,730 |
| Net interest income | \$ 2,377,783 | \$ 1,594,317 | \$ 3,972,100 |

Interest income for the three months ended March 31, 2024, increased by \$13,527,830, or 41.6 percent, from the same period in 2023, primarily due to increase in yields on earning assets, an increase in average loan volume and \$2,542,468 of loan fair value discount accretion to interest income as a result of the merger. Interest expense for the three months ended March 31, 2024, increased by \$9,555,730, or 62.2 percent, from the same period in 2023 due to an increase in interest rates, an increase in average debt volume and \$1,760,215 of note payable fair value discount accretion to interest expense as a result of the merger. Average loan volume for the first quarter of 2024 was \$2,876,839,363, as compared to \$2,507,105,359 in the first quarter of 2023. The average net interest rate spread on the loan portfolio for the first quarter of 2024 was 2.34 percent, as compared to 2.31 in the first quarter of 2023.

The Association's return on average assets for the three months ended March 31, 2024, was 1.90 percent, as compared to 1.98 percent for the same period in 2023. The Association's return on average equity for the three months ended March 31, 2024, was 12.07 percent, as compared to 12.14 percent for the same period in 2023.

Noninterest income for the three months ended March 31, 2024, decreased by \$1,295,355, or 33.9 percent, from the same period in 2023, primarily due to a decrease in patronage income from FCBT. Noninterest expenses for the three months ended March 31, 2024, increased by \$443,783, or 5.1 percent from the same period in 2023. An increase in noninterest expense was expected as a result of the merger in December 2023.

Provision for credit losses for the three months ended March 31, 2024, increased by \$776,521, or 253.1 percent, from the same period in 2023, primarily due to a capital markets relationship requiring additional specific reserves during the period.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from FCBT, which obtains its funds through the issuance of System-wide obligations and use of its lendable equity. The following schedule summarizes the Association's borrowings.

| | March 31, 2024 | December 31, 2023 |
|----------------------------------|---------------------------|------------------------------|
| Note payable to FCBT | \$ 2,479,804,412 | \$ 2,411,172,178 |
| Accrued interest on note payable | 8,052,927 | 7,523,088 |
| Total | \$ 2,487,857,339 | \$ 2,418,695,266 |

The outstanding balance of the note payable to FCBT of \$2,479,804,412 as of March 31, 2024, is recorded as a liability on the Association's Consolidated Balance Sheet. The note carried a weighted average interest rate of 3.83 percent at March 31, 2024. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to FCBT and is governed by the General Financing Agreement (GFA). The increase in note payable to FCBT since December 31, 2023, correlates directly with the overall increase in the Association's accrual loan volume for the period. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$465,869,986 at March 31, 2024. The maximum amount the Association may borrow from FCBT as of March 31, 2024, was \$2,994,747,962 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, which is September 30, 2026, unless sooner terminated by FCBT upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by FCBT, upon giving FCBT 30 calendar days' prior written notice, or in all other circumstances, upon giving FCBT 120 days' prior written notice.

Capital Resources:

The Association's capital position increased by \$13,969,968 at March 31, 2024, as compared to December 31, 2023. The Association's debt as a ratio of members' equity was 5.33:1 as of March 31, 2024, as compared to 5.38:1 as of December 31, 2023.

Economic Conditions:

The Association continues to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit in the midst of financial and macroeconomic volatility driven by factors such as elevated interest rates and persistently

high inflation. Despite the challenging operating environment, credit quality at the Association has remained strong. Volatility in risk ratings is likely to remain a concern in the near future due to the persistence of inflationary pressure, the relatively high cost of debt and an underlying recession risk.

The Consumer Price Index for All Urban Consumers increased by 3.5 percent for the 12-month period ending March 2024, above the long-term target of approximately 2.0 percent. However, recent inflation rates represent significant declines from the four-decade high of 9.1 percent reached in June 2022. The indexes for shelter and gasoline rose in March, contributing to over half of the monthly increase in the index for all items. Since July 2023, the Federal Open Market Committee (FOMC) has maintained the target federal funds rate within the 5.25 – 5.50 percent range. At the March 2024 FOMC meeting, the Committee stated that it does not expect it will be appropriate to reduce the target federal funds rate until it has gained greater confidence that inflation is moving sustainably toward 2.0 percent. Participants indicated that the policy rate was likely at its peak for this tightening cycle and that, if the economy evolves broadly as expected, cuts in the federal funds rate were probable during 2024. Participants were resolute in their commitment to bring inflation down to the 2.0 percent long-run objective while achieving maximum employment.

On March 28, 2024, the U.S. Bureau of Economic Analysis (BEA) released its third estimate of real gross domestic product (GDP) for the fourth quarter of 2023. U.S. real GDP increased at an annual rate of 3.4 percent during the fourth quarter of 2023, down from 4.9 percent during the previous quarter but up from 2.6 percent during the same period a year ago. The increase in real GDP during the fourth quarter primarily reflected higher levels of consumer spending, exports, and state and local government spending, among other categories. Fourth quarter 2023 annualized real GDP growth rates in Texas were 5.0 percent. According to the International Monetary Fund's latest World Economic Outlook report released in April 2024, U.S. real GDP growth is projected to be 2.7 percent in 2024, up from 2.5 percent in 2023, but decelerating afterwards to 1.9 percent in 2025. Mining increased in 43 states during 2023 and was the leading contributor to growth in seven states including North Dakota and Texas, the two states with the largest annual increases in real GDP.

Data from the U.S. Bureau of Labor Statistics (BLS) indicates that the U.S. unemployment rate decreased month-over-month (MOM) to 3.8 percent in March 2024, down from 3.9 percent in February, but up from 3.5 percent during the same period a year ago. The March state unemployment rates in New Mexico and Texas were 3.8 percent and 3.90 percent, respectively.

The West Texas Intermediate (WTI) crude oil futures price (front-month) decreased during the first quarter of 2024 to an average of nearly \$77 per barrel from an average of approximately \$79 per barrel in the fourth quarter of 2023. However, the average WTI price increased by approximately 1.2 percent (about \$1 per barrel) during the first quarter of 2024 compared to the same period a year ago. Even though the average WTI price was lower during the first quarter of 2024 than the prior quarter, the WTI front-month price experienced an upward trend by the second half of March 2024, that continued over the first half of April, and its price exceeded \$85 per barrel. In the April 2024 edition of the Short-Term Energy Outlook, the U.S. Energy Information Administration estimated that the monthly average WTI spot price would be nearly \$84 per barrel in 2024 and \$83 per barrel in 2025. The WTI spot price closed above \$83 per barrel in March 2024.

On March 28, 2024, the U.S. Department of Agriculture (USDA) released its 2024 Prospective Plantings report, the first official, survey-based estimates of U.S. farmers' planting intentions in 2024. Producers intend to plant 90.0 million acres of corn in 2024, down approximately 5.0 percent from last year. Corn planting intentions are down or unchanged in 38 of the 48 estimating states. A year-over-year (YOY) decrease of 300,000 acres or more is estimated in Texas and seven other states. Soybean planted area for 2024 is intended to be 86.5 million acres, up about 3.5 percent from last year. Acreage increases of 100,000 or more are expected in Louisiana and about 11 other states. All wheat planted area for 2024 is estimated at 47.5 million acres, down about 4.2 percent from 2023. All cotton planted area was estimated at 10.7 million acres, about 4.3 percent above last year. These estimates are derived via a survey of farmers' intentions and are subject to change throughout the season.

According to USDA's April 2024 World Agricultural Supply and Demand Estimates (WASDE) report, average farm prices for corn, wheat, and soybeans are estimated to have increased by approximately 9.0 percent, 15.7 percent, and 6.8 percent, respectively, YOY during the 2022/23 marketing year, while the average farm price for upland cotton is estimated to have declined by 7.2 percent. The prices of these crops are projected to decrease during the 2023/24 season from a range of nearly 10.4 percent (cotton) to 28.1 percent (corn). Barrow/gilt, broiler, and turkey prices are estimated to have decreased by 17.7 percent, 11.5 percent, and 9.3 percent, respectively, YOY in 2023, while steer prices are estimated to have risen by an average of 21.6 percent. Steer, barrow/gilt, and broiler prices are projected to increase YOY by about 5.4 percent, 7.5 percent, and 3.7 percent, respectively in 2024, while turkey prices are projected to decline YOY by nearly 26.0 percent. USDA estimates that all-milk prices declined by 19.2 percent from an average of approximately \$25.3 per hundredweight (/cwt.) in 2022 to an estimated average of \$20.5/cwt. in 2023. All-milk prices are projected to increase by about 2.1 percent in 2024.

Front-month random length lumber futures prices increased during the first quarter of 2024 by approximately 2.2 percent, leading to a YOY increase of 21.1 percent as of March 2024. Lumber prices were volatile in 2023, and this volatility will likely persist in 2024 as elevated interest rates continue to affect construction-related demand. Front-month lumber prices increased by nearly 17.0 percent YOY in 2023.

The National Weather Service (NWS) indicates that El Niño is rapidly weakening, and La Niña is favored to develop by summer and to continue through autumn 2024. The NWS seasonal outlook from April through June 2024 indicates that above normal temperatures are expected for most of the Texas District with a 33-50 percent probability. The precipitation outlook suggests that west Texas and most of New Mexico will likely receive below normal precipitation. The recent devastating wildfires that began on February 26, and expanded from the Texas Panhandle and into Oklahoma, caused significant damage in some local areas but are not anticipated to have a material impact on the Association's loan portfolio.

The World Health Organization reported that avian influenza was detected in dairy herds in Texas and Kansas in late March 2024. Similarly, the April 2024 edition of the Federal Reserve System's Beige Book reported that avian influenza has been afflicting chickens and dairy cows in the Texas Panhandle, leading to lower milk production. The extent of the impact to dairy product supply, if any, is unknown at this point, but Beige Book contacts noted that there is not a food safety issue.

Agricultural producers and processors are expected to face several risk factors during 2024, including volatile commodity prices, high input costs, export market disruptions, geopolitical challenges, and adverse weather conditions. The Association's loan portfolio is well-supported by industry diversification and conservative advance rates. Additionally, a high percentage of the Association's borrowers primarily rely on non-farm sources of income to repay their loans.

Significant Recent Accounting Pronouncements:

Refer to Note 1 – "Organization and Significant Accounting Policies" in this quarterly report for disclosures of recent accounting pronouncements which may impact the Association's consolidated financial position and results of operations.

Relationship With FCBT:

The Association's financial condition may be impacted by factors that affect FCBT. The financial condition and results of operations of FCBT may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2023 Annual Report to stockholders more fully describe the Association's relationship with the Bank.

The annual and quarterly stockholder reports of FCBT are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. The annual and quarterly stockholder reports are also available on its website at www.farmcreditbank.com.

The Association's annual and quarterly stockholder reports are also available free of charge, upon request. The annual and quarterly stockholder reports are available approximately 75 days after year end and 40 days after quarter end, respectively, and can be obtained by writing to AgTrust, ACA, 1612 Summit Avenue, Suite 300, Fort Worth, Texas 76102 or calling (817) 332-6565. The annual and quarterly stockholder reports for the Association are also available on its website at www.AgTrustACA.com. Copies of the reports can also be requested by e-mailing ShareHolderRelations@AgTrustACA.com.

AGTRUST, ACA

CONSOLIDATED BALANCE SHEETS

| | March 31, 2024 (unaudited) | December 31, 2023 |
|--|---|--------------------------------|
| <u>ASSETS</u> | | |
| Cash | \$ 41,307 | \$ 22,095 |
| Loans | 2,913,441,228 | 2,844,533,954 |
| Less: allowance for credit losses on loans | <u>(8,654,625)</u> | <u>(8,163,183)</u> |
| Net loans | 2,904,786,603 | 2,836,370,771 |
| Accrued interest receivable | 23,320,319 | 23,636,251 |
| Investment in and receivable from FCBT: | | |
| Capital stock | 51,038,229 | 53,269,671 |
| Other | 2,174,473 | 3,666,387 |
| Deferred taxes, net | 314,918 | 280,822 |
| Other property owned, net | 2,775 | 2,775 |
| Premises and equipment | 5,284,054 | 5,063,913 |
| Other assets | <u>4,699,875</u> | <u>4,764,030</u> |
| Total assets | <u><u>\$ 2,991,662,553</u></u> | <u><u>\$ 2,927,076,715</u></u> |
| <u>LIABILITIES</u> | | |
| Note payable to FCBT | \$ 2,479,804,412 | \$ 2,411,172,178 |
| Accrued interest payable | 8,052,927 | 7,523,088 |
| Drafts outstanding | 68,323 | 57,773 |
| Patronage distributions payable | - | 27,581,494 |
| Other liabilities | <u>31,147,015</u> | <u>22,122,274</u> |
| Total liabilities | <u><u>2,519,072,677</u></u> | <u><u>2,468,456,807</u></u> |
| <u>MEMBERS' EQUITY</u> | | |
| Capital stock and participation certificates | 6,227,905 | 6,213,280 |
| Additional paid-in capital | 124,213,961 | 124,213,961 |
| Unallocated retained earnings | 342,119,515 | 328,157,542 |
| Accumulated other comprehensive income | <u>28,495</u> | <u>35,125</u> |
| Total members' equity | <u>472,589,876</u> | <u>458,619,908</u> |
| Total liabilities and members' equity | <u><u>\$ 2,991,662,553</u></u> | <u><u>\$ 2,927,076,715</u></u> |

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

| | Three Months Ended | |
|---|---------------------------|----------------------|
| | March 31, | |
| | 2024 | 2023 |
| <u>INTEREST INCOME</u> | | |
| Loans | \$ 46,061,187 | \$ 32,533,357 |
| Total interest income | 46,061,187 | 32,533,357 |
| <u>INTEREST EXPENSE</u> | | |
| Note payable to FCBT | 24,917,952 | 15,363,825 |
| Advance conditional payments | 3,895 | 2,292 |
| Total interest expense | 24,921,847 | 15,366,117 |
| Net interest income | 21,139,340 | 17,167,240 |
| <u>PROVISION FOR (REVERSAL OF) CREDIT LOSSES</u> | | |
| | 469,672 | (306,849) |
| Net interest income after provision for (reversal of) credit losses | 20,669,668 | 17,474,089 |
| <u>NONINTEREST INCOME</u> | | |
| Income from FCBT: | | |
| Patronage income | 2,102,373 | 3,567,149 |
| Loan fees | 157,502 | 130,565 |
| Financially related services income | 923 | 542 |
| Gain on sale of premises and equipment, net | 93,470 | 73,866 |
| Other noninterest income | 170,506 | 48,007 |
| Total noninterest income | 2,524,774 | 3,820,129 |
| <u>NONINTEREST EXPENSES</u> | | |
| Salaries and employee benefits | 5,217,181 | 4,765,648 |
| Directors' expense | 177,025 | 160,914 |
| Purchased services | 527,579 | 813,370 |
| Travel | 223,196 | 141,543 |
| Occupancy and equipment | 890,708 | 691,213 |
| Communications | 82,008 | 66,696 |
| Advertising | 176,212 | 196,872 |
| Public and member relations | 629,361 | 526,031 |
| Supervisory and exam expense | 237,631 | 171,948 |
| Insurance fund premiums | 574,553 | 921,823 |
| Other components of net periodic postretirement benefit cost | 75,014 | 50,166 |
| Other noninterest expense | 399,975 | 260,436 |
| Total noninterest expenses | 9,210,443 | 8,766,660 |
| Income before income taxes | 13,983,999 | 12,527,558 |
| Provision for income taxes | 7,440 | 5,153 |
| NET INCOME | 13,976,559 | 12,522,405 |
| Other comprehensive income: | | |
| Change in postretirement benefit plans | (6,630) | (6,630) |
| COMPREHENSIVE INCOME | \$ 13,969,929 | \$ 12,515,775 |

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

AGTRUST, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

| | Capital Stock/ Participation Certificates | Additional Paid-in-Capital | Retained Earnings | | Accumulated Other Comprehensive Income (Loss) | Total Members' Equity |
|--|---|-------------------------------|-------------------|-----------------------|--|-----------------------------|
| | | | Allocated | Unallocated | | |
| Balance at December 31, 2022 | \$ 5,816,750 | \$ 91,343,553 | \$ - | \$ 315,281,755 | \$ 181,784 | \$ 412,623,842 |
| Comprehensive income | | | | 12,522,405 | (6,630) | 12,515,775 |
| Capital stock/participation certificates issued | 106,685 | | | | | 106,685 |
| Capital stock/participation certificates retired | (125,645) | | | | | (125,645) |
| Dividends declared | | | | (74,756) | | (74,756) |
| Cumulative impact of adoption of new accounting standard | | | | (132,373) | | (132,373) |
| Balance at March 31, 2023 | <u>\$ 5,797,790</u> | <u>\$ 91,343,553</u> | <u>\$ -</u> | <u>\$ 327,597,031</u> | <u>\$ 175,154</u> | <u>\$ 424,913,528</u> |
| Balance at December 31, 2023 | \$ 6,213,280 | \$ 124,213,961 | \$ - | \$ 328,157,542 | \$ 35,125 | \$ 458,619,908 |
| Comprehensive income | | | | 13,976,559 | (6,630) | 13,969,929 |
| Capital stock/participation certificates issued | 144,200 | | | | | 144,200 |
| Capital stock/participation certificates retired | (129,575) | | | | | (129,575) |
| Dividends declared | | | | (14,586) | | (14,586) |
| Balance at March 31, 2024 | <u>\$ 6,227,905</u> | <u>\$ 124,213,961</u> | <u>\$ -</u> | <u>\$ 342,119,515</u> | <u>\$ 28,495</u> | <u>\$ 472,589,876</u> |

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

AGTRUST, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

AgTrust, ACA, including its wholly owned subsidiaries, AgTrust, PCA and AgTrust, FLCA (collectively called the “Association”), is a member-owned cooperative that provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural and rural purposes in the counties of Bell, Borden, Bosque, Bowie, Burnet, Camp, Cass, Cochran, Cooke, Coryell, Dallas, Delta, Denton, Eastland, Ellis, Erath, Falls, Fannin, Fisher, Freestone, Grayson, Hamilton, Hill, Hood, Johnson, Kent, Lamar, Lampasas, Limestone, McLennan, Milam, Mitchell, Morris, Navarro, Nolan, Palo Pinto, Parker, Red River, Scurry, Shackelford, Somervell, Stephens, Tarrant, Taylor, Throckmorton, Titus, Williamson, Wise and Young in the state of Texas, and all counties in the state of New Mexico with the exception of San Juan County and a portion of Rio Arriba County lying west of the Continental Divide. The Association is a lending institution of the Farm Credit System, which was established by Acts of Congress to meet the needs of American agriculture.

In addition, the Association and American Ag Credit, ACA have entered into a “Territorial Concurrence Agreement” (the TCA) that allows, on a statewide basis, the Association to make mortgage loans and American Ag Credit, ACA to make production loans in New Mexico without obtaining territorial concurrence. The TCA has been in place since 2001 and is a result of the unique bifurcated charter in the New Mexico territory that authorized the Association to make production loans or mortgage loans, but not both, in certain counties.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2023, as contained in the 2023 Annual Report to Stockholders. Certain amounts in the prior period’s financial statements have been reclassified to the current period’s financial statement presentation.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with GAAP, except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2024. Descriptions of the significant accounting policies are included in the 2023 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

Recently 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 ON LOANS:

A summary of loans follows:

| Loan Type | March 31, | December 31, |
|----------------------------------|-------------------------|-------------------------|
| | 2024 | 2023 |
| | Amount | Amount |
| Production agriculture: | | |
| Real estate mortgage | \$ 2,288,398,986 | \$ 2,237,942,282 |
| Production and intermediate-term | 221,639,805 | 222,416,841 |
| Agribusiness: | | |
| Loans to cooperatives | 20,050,005 | 17,044,890 |
| Processing and marketing | 202,786,589 | 192,769,838 |
| Farm-related business | 60,257,183 | 55,955,011 |
| Communication | 45,726,380 | 45,161,278 |
| Energy | 35,294,711 | 35,789,645 |
| Water and wastewater | 11,994,354 | 12,754,486 |
| Rural residential real estate | 12,122,244 | 10,544,054 |
| International | 13,982,159 | 12,931,775 |
| Lease receivables | 1,188,812 | 1,223,854 |
| Total | <u>\$ 2,913,441,228</u> | <u>\$ 2,844,533,954</u> |

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at March 31, 2024:

| | Other Farm Credit Institutions | | Non-Farm Credit Institutions | | Total | |
|----------------------------------|--------------------------------|----------------------|------------------------------|---------------------|----------------------|----------------------|
| | Participations | Participations | Participations | Participations | Participations | Participations |
| | Purchased | Sold | Purchased | Sold | Purchased | Sold |
| Real estate mortgage | \$ 45,594,763 | \$203,332,260 | \$ 4,254,446 | \$ - | \$ 49,849,209 | \$203,332,260 |
| Production and intermediate-term | 71,271,302 | 17,377,332 | - | - | 71,271,302 | 17,377,332 |
| Agribusiness | 234,924,795 | 5,761,360 | - | 1,272,128 | 234,924,795 | 7,033,488 |
| Communication | 46,158,582 | - | - | - | 46,158,582 | - |
| Energy | 35,629,143 | - | - | - | 35,629,143 | - |
| Water and wastewater | 12,275,870 | - | - | - | 12,275,870 | - |
| International | 14,281,001 | - | - | - | 14,281,001 | - |
| Lease receivables | 1,300,114 | - | - | - | 1,300,114 | - |
| Total | <u>\$461,435,570</u> | <u>\$226,470,952</u> | <u>\$ 4,254,446</u> | <u>\$ 1,272,128</u> | <u>\$465,690,016</u> | <u>\$227,743,080</u> |

The Association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. Balances of restricted ACPs netted against borrower’s related loan balance were \$15,801,802 and \$13,250,777 at March 31, 2024, and December 31, 2023, respectively. Unrestricted ACPs are included in other liabilities. Balances of unrestricted ACPs were \$1,674,032 and \$942,822 at March 31, 2024, and December 31, 2023, respectively. ACPs are not insured, and interest is generally paid by the Association on such balances.

Credit Quality

Credit risk arises from the potential inability of an obligor to meet its payment obligation and exists in our outstanding loans, letters of credit and unfunded loan commitments. The Association manages credit risk associated with the retail lending activities through an analysis of the credit risk profile of an individual borrower using its own set of underwriting standards and lending policies, approved by its board of directors, which provides direction to its loan officers. The retail credit risk management process begins with an analysis of the borrower’s credit history, repayment capacity, financial position and collateral, which includes an analysis of credit scores for smaller loans. Repayment capacity focuses on the borrower’s ability to repay the loan based on cash flows from operations or other sources of income, including off-farm income. Real estate mortgage loans must be secured by first liens on the real estate (collateral). As required by Farm Credit Administration regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85% of the original appraised value of the property taken as security or up to 97% of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Loans other than real estate mortgage may be made on a secured or unsecured basis.

The Association uses a two-dimensional risk rating model based on an internally generated combined System risk rating guidance that incorporates a 14-point probability of default rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default. Probability of default is the probability that a borrower will experience a default during the life of the loan. The loss given default is management's estimate as to the anticipated principal loss on a specific loan assuming default occurs during the remaining life of the loan. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower or the loan is classified nonaccrual. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses and risks in a particular relationship. The Association reviews, at least on an annual basis, or when a credit action is taken the probability of default category.

Each of the probability of default categories carries a distinct percentage of default probability. The probability of default rate between one and nine of the acceptable categories is very narrow and would reflect almost no default to a minimal default percentage. The probability of default rate grows more rapidly as a loan moves from acceptable to other assets especially mentioned and grows significantly as a loan moves to a substandard level. These categories are defined as follows:

- Acceptable — assets are expected to be fully collectible and represent the highest quality,
- Other assets especially mentioned (OAEM) — assets are currently collectible but exhibit some potential weakness,
- Substandard — assets exhibit some serious weakness in repayment capacity, equity, or collateral pledged on the loan,

The following table shows loans under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans by loan type:

| | March 31, 2024 | December 31, 2023 |
|----------------------------------|---------------------------|----------------------|
| Real estate mortgage | | |
| Acceptable | 100% | 100% |
| OAEM | 0% | 0% |
| Substandard/doubtful | 0% | 0% |
| | 100% | 100% |
| Production and intermediate-term | | |
| Acceptable | 95% | 95% |
| OAEM | 1% | 1% |
| Substandard/doubtful | 4% | 4% |
| | 100% | 100% |
| Loan to cooperatives | | |
| Acceptable | 100% | 100% |
| OAEM | 0% | 0% |
| Substandard/doubtful | 0% | 0% |
| | 100% | 100% |
| Processing and marketing | | |
| Acceptable | 95% | 95% |
| OAEM | 5% | 5% |
| Substandard/doubtful | 0% | 0% |
| | 100% | 100% |
| Farm-related business | | |
| Acceptable | 100% | 100% |
| OAEM | 0% | 0% |
| Substandard/doubtful | 0% | 0% |
| | 100% | 100% |
| Communication | | |
| Acceptable | 100% | 100% |
| OAEM | 0% | 0% |
| Substandard/doubtful | 0% | 0% |
| | 100% | 100% |
| Energy | | |
| Acceptable | 99% | 99% |
| OAEM | 0% | 0% |
| Substandard/doubtful | 1% | 1% |
| | 100% | 100% |
| Water and wastewater | | |
| Acceptable | 100% | 100% |
| OAEM | 0% | 0% |
| Substandard/doubtful | 0% | 0% |
| | 100% | 100% |
| Rural residential real estate | | |
| Acceptable | 100% | 99% |
| OAEM | 0% | 0% |
| Substandard/doubtful | 0% | 1% |
| | 100% | 100% |
| International | | |
| Acceptable | 100% | 100% |
| OAEM | 0% | 0% |
| Substandard/doubtful | 0% | 0% |
| | 100% | 100% |
| Lease Receivables | | |
| Acceptable | 100% | 100% |
| OAEM | 0% | 0% |
| Substandard/doubtful | 0% | 0% |
| | 100% | 100% |
| Total loans | | |
| Acceptable | 99% | 99% |
| OAEM | 1% | 1% |
| Substandard/doubtful | 0% | 0% |
| | 100% | 100% |

Accrued interest receivable on loans of \$23,320,319 and \$23,636,251 at March 31, 2024, and December 31, 2023, have been excluded from the amortized cost of loans and reported separately in the Balance Sheet. The Association did not write off any accrued interest receivable for the three months ended March 31, 2024, and 2023.

The following table reflects nonperforming assets, which consist of nonaccrual loans, accruing loans 90 days or more delinquent, and other property owned and related credit quality statistics:

| | March 31, 2024 | December 31, 2023 |
|--|---------------------------|------------------------------|
| Nonaccrual loans: | | |
| Real estate mortgage | \$ 2,011,034 | \$ 2,071,781 |
| Production and intermediate-term | 8,366,490 | 8,202,822 |
| Energy | 206,462 | 221,814 |
| Rural residential real estate | 41,981 | 73,670 |
| Total nonaccrual loans | <u>\$ 10,625,967</u> | <u>\$ 10,570,087</u> |
| Other property owned | <u>2,775</u> | <u>2,775</u> |
| Total nonperforming assets | <u>\$ 10,628,742</u> | <u>\$ 10,572,862</u> |
| | | |
| Nonaccrual loans as a percentage of total loans | 0.4% | 0.4% |
| Nonperforming assets as a percentage of total loans and other property owned | 0.4% | 0.4% |
| Nonperforming assets as a percentage of capital | 2.2% | 2.3% |

The following tables provide the amortized cost for nonaccrual loans with and without a related allowance for loan losses, as well as interest income recognized on nonaccrual during the period:

| | March 31, 2024 | | | Interest Income Recognized For the Three Months Ended March 31, 2024 |
|----------------------------------|--|---|----------------------|---|
| | Amortized Cost with Allowance | Amortized Cost without Allowance | Total | |
| Nonaccrual loans: | | | | |
| Real estate mortgage | \$ - | \$ 2,011,034 | \$ 2,011,034 | \$ 6,453 |
| Production and intermediate-term | 8,153,559 | 212,931 | 8,366,490 | 201 |
| Energy | 206,462 | - | 206,462 | - |
| Rural residential real estate | - | 41,981 | 41,981 | 1,666 |
| Total nonaccrual loans | <u>\$ 8,360,021</u> | <u>\$ 2,265,946</u> | <u>\$ 10,625,967</u> | <u>\$ 8,320</u> |

| | December 31, 2023 | | | Interest Income Recognized For the Three Months Ended March 31, 2023 |
|----------------------------------|--|---|----------------------|---|
| | Amortized Cost with Allowance | Amortized Cost without Allowance | Total | |
| Nonaccrual loans: | | | | |
| Real estate mortgage | \$ - | \$ 2,071,781 | \$ 2,071,781 | \$ 62,580 |
| Production and intermediate-term | 8,178,719 | 24,103 | 8,202,822 | 42,684 |
| Energy | 221,814 | - | 221,814 | - |
| Rural residential real estate | - | 73,670 | 73,670 | 5,804 |
| Total nonaccrual loans | <u>\$ 8,400,533</u> | <u>\$ 2,169,554</u> | <u>\$ 10,570,087</u> | <u>\$ 111,068</u> |

The following tables provide an aging analysis of past due loans at amortized cost by portfolio segment as of:

| March 31, 2024 | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total Loans |
|----------------------------------|------------------------------------|---|-------------------------------|---|-------------------------|
| Real estate mortgage | \$ 16,154,382 | \$ 967,349 | \$ 17,121,731 | \$ 2,271,277,255 | \$ 2,288,398,986 |
| Production and intermediate-term | 7,803 | 8,041,345 | 8,049,148 | 213,590,657 | 221,639,805 |
| Loans to cooperatives | - | - | - | 20,050,005 | 20,050,005 |
| Processing and marketing | 2,718,713 | - | 2,718,713 | 200,067,876 | 202,786,589 |
| Farm-related business | - | - | - | 60,257,183 | 60,257,183 |
| Communication | - | - | - | 45,726,380 | 45,726,380 |
| Energy | - | - | - | 35,294,711 | 35,294,711 |
| Water and wastewater | - | - | - | 11,994,354 | 11,994,354 |
| Rural residential real estate | 185,364 | - | 185,364 | 11,936,880 | 12,122,244 |
| International | - | - | - | 13,982,159 | 13,982,159 |
| Lease receivables | - | - | - | 1,188,812 | 1,188,812 |
| Total | \$ 19,066,262 | \$ 9,008,694 | \$ 28,074,956 | \$ 2,885,366,272 | \$ 2,913,441,228 |

| December 31, 2023 | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total Loans |
|----------------------------------|------------------------------------|---|-------------------------------|---|-------------------------|
| Real estate mortgage | \$ 3,875,450 | \$ 640,906 | \$ 4,516,356 | \$ 2,233,425,926 | \$ 2,237,942,282 |
| Production and intermediate-term | 7,117,760 | 1,512,002 | 8,629,762 | 213,787,080 | 222,416,842 |
| Loans to cooperatives | - | - | - | 17,044,890 | 17,044,890 |
| Processing and marketing | - | - | - | 192,769,838 | 192,769,838 |
| Farm-related business | - | - | - | 55,955,011 | 55,955,011 |
| Communication | - | - | - | 45,161,278 | 45,161,278 |
| Energy | - | - | - | 35,789,645 | 35,789,645 |
| Water and wastewater | - | - | - | 12,754,486 | 12,754,486 |
| Rural residential real estate | 169,322 | - | 169,322 | 10,374,731 | 10,544,053 |
| International | - | - | - | 12,931,775 | 12,931,775 |
| Lease receivables | - | - | - | 1,223,854 | 1,223,854 |
| Total | \$ 11,162,532 | \$ 2,152,908 | \$ 13,315,440 | \$ 2,831,218,514 | \$ 2,844,533,954 |

A loan is considered collateral dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The collateral dependent loans are primarily real estate mortgage and rural residential real estate loans.

Loan Modifications to Borrowers Experiencing Financial Difficulties:

The following table shows the amortized cost basis and financial effect for loan modifications granted to borrowers experiencing financial difficulty, disaggregated by loan type and type of modification granted:

| For the Three Months March 31, 2024 | Real estate mortgage | | |
|--|-----------------------------|-------------------------|---|
| | Amortized Cost Basis | % of Total Loans | Financial Effect of Loan Modifications |
| Term and Payment Extension | \$ 75,375 | 0% | Provided nine-month payment deferral with delayed amounts added to loan maturity. |
| Total | \$ 75,375 | | |

The Association did not have any loan modifications granted to borrowers experiencing financial difficulty for the three months ended March 31, 2023.

There was no accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty as of the three months ended March 31, 2024, and 2023, respectively.

The following table sets forth the amortized cost of loans to borrowers experiencing financial difficulties that defaulted during the three months ended March 31, 2024, and received a modification in the twelve months before default:

| | Modified Loans that Subsequently Defaulted During the Three Months Ended March 31, 2024 Term Extension & Payment Deferral |
|----------------------|--|
| Real estate mortgage | <u>\$ 967,349</u> |
| Total | <u><u>\$ 967,349</u></u> |

There were no loans to borrowers experiencing financial difficulty that received a modification on or after January 1, 2023, the date of adoption of the guidance “Financial Instruments – Credit Losses: Troubled Debt Restructurings and Vintage Disclosure,” through March 31, 2023, and that defaulted in the period presented.

The following table sets forth an aging analysis of loans to borrowers experiencing financial difficulty that were modified during the twelve months prior to March 31, 2024:

| | Payment Status of Loans Modified in the Past 12 Months | | |
|----------------------|---|--------------------------------|-------------------------------------|
| | Current | 30-89 Days Past Due | 90 Days or More Past Due |
| Real estate mortgage | <u>\$ 88,585</u> | <u>-</u> | <u>\$ 967,349</u> |
| Total | <u><u>\$ 88,585</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 967,349</u></u> |

There were no additional commitments to lend to borrowers experiencing financial difficulty whose loans have been modified as of March 31, 2024, and 2023, respectively.

Allowance for Credit Losses (ACL)

The credit risk rating methodology is a key component of the Association's allowance for credit losses evaluation, and is incorporated into the Association's loan underwriting standards and internal lending limits. In addition, borrower and commodity concentration lending and leasing limits have been established to manage credit exposure. The regulatory limit to a single borrower or lessee is 15 percent of the Association's lending and leasing limit base but the Association's Boards of Directors have generally established more restrictive lending limits.

A summary of changes in the allowance for credit losses by portfolio segment are as follows:

| | Production and | | | | | Rural | | | | Total |
|---|-------------------------|-----------------------|---------------------|------------------|-------------------|-------------------------|----------------------------|------------------|---------------|---------------------|
| | Real Estate Mortgage | Intermediate- Term | Agribusiness | Communications | Energy | Water and Wastewater | Residential Real Estate | International | Leases | |
| Allowance for credit losses on loans: | | | | | | | | | | |
| Balance at December 31, 2023 | \$ 4,757,449 | \$ 2,225,962 | \$ 942,233 | \$ 60,465 | \$ 120,123 | \$ 12,188 | \$ 32,316 | \$ 12,092 | \$ 355 | \$ 8,163,183 |
| Recoveries | - | 3,300 | 346 | - | - | - | - | - | - | 3,646 |
| Provision for (reversal of) credit losses on loans | (293,756) | 805,142 | (5,544) | 696 | (15,866) | (1,199) | (800) | (841) | (36) | 487,796 |
| Balance at March 31, 2024 | <u>\$ 4,463,693</u> | <u>\$ 3,034,404</u> | <u>\$ 937,035</u> | <u>\$ 61,161</u> | <u>\$ 104,257</u> | <u>\$ 10,989</u> | <u>\$ 31,516</u> | <u>\$ 11,251</u> | <u>\$ 319</u> | <u>\$ 8,654,625</u> |
| Allowance for credit losses on unfunded commitments: | | | | | | | | | | |
| Balance at December 31, 2023 | \$ 23,994 | \$ 31,049 | \$ 241,357 | \$ 2,953 | \$ 475 | \$ 2,767 | \$ - | \$ 9,031 | \$ - | \$ 311,626 |
| Provision for unfunded commitments | (529) | 4,593 | (22,532) | (685) | 1,173 | (23) | - | (121) | - | (18,124) |
| Balance at March 31, 2024 | <u>\$ 23,465</u> | <u>\$ 35,642</u> | <u>\$ 218,825</u> | <u>\$ 2,268</u> | <u>\$ 1,648</u> | <u>\$ 2,744</u> | <u>\$ -</u> | <u>\$ 8,910</u> | <u>\$ -</u> | <u>\$ 293,502</u> |
| Total allowance for credit losses | <u>\$ 4,487,158</u> | <u>\$ 3,070,046</u> | <u>\$ 1,155,860</u> | <u>\$ 63,429</u> | <u>\$ 105,905</u> | <u>\$ 13,733</u> | <u>\$ 31,516</u> | <u>\$ 20,161</u> | <u>\$ 319</u> | <u>\$ 8,948,127</u> |

| | Production and | | | | | Rural | | | | Total |
|---|-------------------------|-----------------------|---------------------|------------------|-------------------|-------------------------|----------------------------|------------------|-------------|---------------------|
| | Real Estate Mortgage | Intermediate- Term | Agribusiness | Communications | Energy | Water and Wastewater | Residential Real Estate | International | Leases | |
| Allowance for Credit Losses on Loans: | | | | | | | | | | |
| Balance at December 31, 2022 | \$ 4,342,114 | \$ 385,628 | \$ 769,541 | \$ 83,506 | \$ 130,241 | \$ 1,752 | \$ 17,835 | \$ 16,377 | \$ - | \$ 5,746,994 |
| Cumulative effect if a change in accounting principle | 224,230 | (244,862) | 67,965 | (45,873) | (21,401) | (1,429) | 1,217 | (9,925) | - | (30,078) |
| Balance at January 1, 2023 | <u>4,566,344</u> | <u>140,766</u> | <u>837,506</u> | <u>37,633</u> | <u>108,840</u> | <u>323</u> | <u>19,052</u> | <u>6,452</u> | <u>-</u> | <u>5,716,916</u> |
| Recoveries | - | 1,337 | 777 | - | - | - | - | - | - | 2,114 |
| (Reversal of) provision for credit losses on loans | (324,466) | (16,762) | 161,139 | (417) | 4,698 | (20) | (2,183) | 807 | - | (177,204) |
| Balance at March 31, 2023 | <u>\$ 4,241,878</u> | <u>\$ 125,341</u> | <u>\$ 999,422</u> | <u>\$ 37,216</u> | <u>\$ 113,538</u> | <u>\$ 303</u> | <u>\$ 16,869</u> | <u>\$ 7,259</u> | <u>\$ -</u> | <u>\$ 5,541,826</u> |
| Allowance for Unfunded Commitments: | | | | | | | | | | |
| Balance at December 31, 2022 | \$ 45 | \$ 26,375 | \$ 83,273 | \$ 935 | \$ 707 | \$ - | \$ - | \$ 3,259 | \$ - | \$ 114,594 |
| Cumulative effect if a change in accounting principle | 2 | (7,263) | 163,127 | 1,090 | 692 | - | - | 4,803 | - | 162,451 |
| Balance at January 1, 2023 | <u>47</u> | <u>19,112</u> | <u>246,400</u> | <u>2,025</u> | <u>1,399</u> | <u>-</u> | <u>-</u> | <u>8,062</u> | <u>-</u> | <u>277,045</u> |
| Reversal of provision for credit losses on unfunded commitments | (17) | (2,862) | (124,302) | (634) | (303) | - | - | (1,527) | - | (129,645) |
| Balance at March 31, 2023 | <u>\$ 30</u> | <u>\$ 16,250</u> | <u>\$ 122,098</u> | <u>\$ 1,391</u> | <u>\$ 1,096</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 6,535</u> | <u>\$ -</u> | <u>\$ 147,400</u> |
| Total allowance for credit losses | <u>\$ 4,241,908</u> | <u>\$ 141,591</u> | <u>\$ 1,121,520</u> | <u>\$ 38,607</u> | <u>\$ 114,634</u> | <u>\$ 303</u> | <u>\$ 16,869</u> | <u>\$ 13,794</u> | <u>\$ -</u> | <u>\$ 5,689,226</u> |

Discussion of Changes in Allowance for Credit Losses

The ACL increased to \$8,948,127 at March 31, 2024, as compared to \$8,474,809 at December 31, 2023. This is largely due to a capital markets relationship requiring additional specific reserves during the period.

NOTE 3 —LEASES:

The components of lease expense were as follows:

| | <u>Classification</u> | For the Three Months Ended | |
|----------------------|-----------------------|-----------------------------------|-----------------------|
| | | March 31, 2024 | March 31, 2023 |
| Operating lease cost | | \$ 224,598 | \$ 154,278 |
| Net lease cost | | \$ 224,598 | \$ 154,278 |

Other information related to leases was as follows:

| | For the Three Months Ended | |
|---|-----------------------------------|----------------|
| | March 31, 2024 | March 31, 2023 |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | \$ 215,571 | \$ 153,818 |

Lease term and discount rate are as follows:

| | March 31, 2024 | December 31, 2023 |
|--|-----------------------|-------------------|
| Weighted average remaining lease term in years | | |
| Operating leases | 2.5 | 2.5 |
| Weighted average discount rate | | |
| Operating leases | 2.7% | 2.8% |

Future minimum lease payments under non-cancellable leases as of March 31, 2024, were as follows:

| | Operating Leases |
|----------------------|-----------------------------|
| 2024 | \$ 428,668 |
| 2025 | 309,145 |
| 2026 | 173,165 |
| 2027 | 61,354 |
| 2028 | 47,043 |
| Total lease payments | \$ 1,019,375 |

NOTE 4 — CAPITAL:

The Association's Board has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected patronage, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the Board also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the Board.

Regulatory Capitalization Requirements

| Risk-adjusted: | Regulatory Minimums with Buffer | As of March 31, 2024 |
|----------------------------|--|---------------------------------|
| Common equity tier 1 ratio | 7.00% | 14.00% |
| Tier 1 capital ratio | 8.50% | 14.00% |
| Total capital ratio | 10.50% | 14.29% |
| Permanent capital ratio | 7.00% | 14.04% |
| Non-risk-adjusted: | | |
| Tier 1 leverage ratio | 5.00% | 14.14% |
| UREE leverage ratio | 1.50% | 13.93% |

Risk-adjusted assets have been defined by FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the deduction of the allowance for credit losses from risk-adjusted assets for the permanent capital ratio.

The ratios are based on a three-month average daily balance in accordance with FCA regulations and are calculated as follows:

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

If the capital ratios fall below the minimum regulatory requirements, including the capital conservation and leverage buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary bonus payments to senior officers are restricted or prohibited without prior FCA approval.

The components of the Association's risk-adjusted capital, based on 90 day average balances, were as follows at March 31, 2024:

| | Common equity tier 1 ratio | Tier 1 capital ratio | Total capital ratio | Permanent capital ratio |
|--|----------------------------------|-------------------------|-------------------------|----------------------------|
| Numerator: | | | | |
| Unallocated retained earnings | \$ 268,751,988 | \$ 268,751,988 | \$ 268,751,988 | \$ 268,751,988 |
| Paid-in capital | 122,969,077 | 122,969,077 | 122,969,077 | 122,969,077 |
| Common Cooperative Equities: | | | | |
| Statutory minimum purchased borrower stock | 6,212,664 | 6,212,664 | 6,212,664 | 6,212,664 |
| Nonqualified allocated equities not subject to revolvement | 65,733,966 | 65,733,966 | 65,733,966 | 65,733,966 |
| Allowance for credit losses subject to certain limitations | - | - | 8,452,021 | - |
| Regulatory Adjustments and Deductions: | | | | |
| Amount of allocated investments in other System institutions | (53,149,289) | (53,149,289) | (53,149,289) | (53,149,289) |
| | <u>\$ 410,518,406</u> | <u>\$ 410,518,406</u> | <u>\$ 418,970,427</u> | <u>\$ 410,518,406</u> |
| Denominator: | | | | |
| Risk-adjusted assets excluding allowance | \$ 2,985,536,252 | \$ 2,985,536,252 | \$ 2,985,536,252 | \$ 2,985,536,252 |
| Regulatory Adjustments and Deductions: | | | | |
| Regulatory deductions included in total capital | (53,149,289) | (53,149,289) | (53,149,289) | (53,149,289) |
| Allowance for credit losses on loans | - | - | - | (8,143,376) |
| | <u>\$ 2,932,386,963</u> | <u>\$ 2,932,386,963</u> | <u>\$ 2,932,386,963</u> | <u>\$ 2,924,243,587</u> |

The components of the Association's non-risk-adjusted capital, based on 90 day average balances, were as follows at March 31, 2024:

| | Tier 1 leverage ratio | UREE leverage ratio |
|--|--------------------------|-------------------------|
| Numerator: | | |
| Unallocated retained earnings | \$ 268,751,988 | \$ 268,751,988 |
| Paid-in capital | 122,969,077 | 122,969,077 |
| Common Cooperative Equities: | | |
| Statutory minimum purchased borrower stock | 6,212,664 | |
| Nonqualified allocated equities not subject to revolvement | 65,733,966 | 65,733,966 |
| Regulatory Adjustments and Deductions: | | |
| Amount of allocated investments in other System institutions | (53,149,289) | (53,149,289) |
| | <u>\$ 410,518,406</u> | <u>\$ 404,305,742</u> |
| Denominator: | | |
| Total Assets | 2,957,194,404 | 2,957,194,404 |
| Regulatory Adjustments and Deductions: | | |
| Regulatory deductions included in tier 1 capital | (53,802,943) | (53,802,943) |
| | <u>\$ 2,903,391,461</u> | <u>\$ 2,903,391,461</u> |

| | March 31, 2024 | December 31, 2023 |
|--|-----------------------|-----------------------|
| Capital stock and participation certificates | \$ 6,227,905 | \$ 6,213,280 |
| Additional paid-in-capital | 124,213,961 | 124,213,961 |
| Retained earnings | 342,119,515 | 328,157,542 |
| Accumulated other comprehensive income | 28,495 | 35,125 |
| Total Capital | <u>\$ 472,589,876</u> | <u>\$ 458,619,908</u> |

The Association's accumulated other comprehensive (loss) income relates entirely to its nonpension other postretirement benefits. The following table summarizes the change in accumulated other comprehensive (loss) income for the three months ended March 31:

| | <u>2024</u> | <u>2023</u> |
|---|------------------|-------------------|
| Accumulated other comprehensive income at January 1 | \$ 35,125 | \$ 181,784 |
| Amortization of prior service credits included in salaries and employee benefits | <u>(6,630)</u> | <u>(6,630)</u> |
| Other comprehensive loss | <u>(6,630)</u> | <u>(6,630)</u> |
| Accumulated other comprehensive income at March 31 | <u>\$ 28,495</u> | <u>\$ 175,154</u> |

NOTE 5 — INCOME TAXES:

AgTrust, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. AgTrust, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, AgTrust, ACA can exclude from taxable income amounts distributed as qualified patronage in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized.

As of March 31, 2024, the deferred income tax valuation allowance was \$10,413,254.

NOTE 6 — FAIR VALUE MEASUREMENTS:

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 14 to the 2023 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

| <u>March 31, 2024</u> | <u>Fair Value Measurement Using</u> | | | <u>Total Fair Value</u> |
|--|-------------------------------------|----------------|----------------|-------------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | |
| Assets: | | | | |
| Assets held in non-qualified benefits trusts | \$ 823,994 | \$ - | \$ - | \$ 823,994 |
| Total assets | <u>\$ 823,994</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 823,994</u> |
| December 31, 2023 | | | | |
| | <u>Fair Value Measurement Using</u> | | | <u>Total Fair Value</u> |
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | |
| Assets: | | | | |
| Assets held in non-qualified benefits trusts | \$ 677,620 | \$ - | \$ - | \$ 677,620 |
| Total assets | <u>\$ 677,620</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 677,620</u> |

Assets and liabilities measured at fair value on a nonrecurring basis for each of the fair value hierarchy values are summarized below:

| <u>March 31, 2024</u> | <u>Fair Value Measurement Using</u> | | | <u>Total Fair Value</u> |
|-----------------------|-------------------------------------|----------------|----------------|-------------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | |
| Assets: | | | | |
| Loans | \$ - | \$ - | \$5,330,070 | \$ 5,330,070 |
| Other property owned | - | - | - | - |
| December 31, 2023 | | | | |
| | <u>Fair Value Measurement Using</u> | | | <u>Total Fair Value</u> |
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | |
| Assets: | | | | |
| Loans | \$ - | \$ - | \$6,169,167 | \$ 6,169,167 |
| Other property owned | - | - | 2,775 | 2,775 |

Valuation Techniques

As more fully discussed in Note 2 to the 2023 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see Notes to the 2023 Annual Report to Stockholders.

Assets Held in Nonqualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Standby Letters of Credit

The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. 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. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three months ended March 31:

| | Other Benefits | |
|---|------------------|------------------|
| | 2024 | 2023 |
| Service cost | \$ 21,299 | \$ 15,318 |
| Interest cost | 81,644 | 56,796 |
| Amortization of prior service (credits) costs | (6,630) | (6,630) |
| Net periodic benefit cost | <u>\$ 96,313</u> | <u>\$ 65,484</u> |

The Association's liability for the unfunded accumulated obligation for these benefits at March 31, 2024, was \$6,105,990 and is included in other liabilities on the Consolidated Balance Sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "other components of net periodic postretirement benefit cost" in the Consolidated Statements of Comprehensive Income.

The structure of the district's defined benefit retirement plan (DB plan), which is noncontributory and benefits are based on salary and years of service, is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the DB plan as an expense. The Association has contributed \$180,282 to fund the DB plan for 2024. As of March 31, 2024, the Association has expensed and recognized \$45,071.

NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:

The Association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

NOTE 9 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through May 10, 2024, which is the date the financial statements were issued or available to be issued, and did not note any subsequent events requiring disclosure as of May 10, 2024.