Yosemite Farm Credit

MARCH 2024

QUARTERLY REPORT

HELPING OUR MEMBERS PROSPER!

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A MESSAGE TO OUR MEMBERS

Financial Highlights

We are pleased to inform you of the Association's financial progress during the three months ending March 31, 2024. The financial condition of the Association is sound. The Association remains capitalized to withstand adversity, sufficiently liquid to meet obligations as they come due, and able to earn profits to further enhance total shareholders' equity. This quarterly shareholder report was prepared under the oversight of the Audit Committee.

The Association returned, in the form of qualified cash patronage, $44.4 million of its 2023 patronage sourced earnings to patrons. This distribution effectively reduced each patron's interest in 2023 by approximately one percent.

Loans increased by $2.4 million in the three months ended March 31, 2024. The increase is primarily due to new loans and advances on existing loans, offset by pay downs by members.

The note payable to CoBank, ACB (CoBank) decreased $60.6 million from year-end due to the receipt of 2023 CoBank patronage and Association earnings.

The Association's first quarter 2024 net earnings were $29.1 million, which is approximately $3.5 million higher than the same period in the prior year.

Net interest income before the provision for credit losses increased $3.4 million during the first quarter compared to the same period last year. The increase was primarily due to increased earnings on our capital and higher levels of accruing loan volume.

The quarterly review of credit risk resulted in the Association recording a provision for credit losses of $0.3 million in the first quarter 2024, compared to $0.1 million provision for credit losses in the first quarter 2023.

The Association's total non-interest expense was $11.7 million for the first quarter 2024 and 2023.

Credit quality decreased to 95.5% Acceptable/ OAEM at March 31, 2024, compared to 98.1% at March 31, 2023. Nonaccrual loan volume is $26.0 million and represents 0.6% of total loan volume. The volume of delinquent accounts of accrual loans and leases increased to 1.8% compared to 1.3% as of December 31, 2023. The overall decrease in credit quality was driven by lower commodity prices in our two primary commodities, almonds and dairy.

The Association advance conditional payment accounts, offering an interest rate up to 4.85% for the month of March, decreased $6.3 million from $120.4 million at year-end to $114.1 million at March 31, 2024.

Thank you

To our Members, we appreciate the confidence you have placed in the Yosemite Farm Credit Team. It is a privilege to serve you. To our prospective Members, we welcome the opportunity to assist with your agricultural financing needs.

Nancy Sill Board Chair	Tracy V. Sparks President and CEO	Matthew McNelis Executive VP and CFO

The Stockholders' investment in the Association is materially affected by the financial condition and the results of operations of CoBank. The CoBank, FCB and CoBank District quarterly and annual reports are available free of charge by accessing CoBank's website, www.Cobank.com, or may be obtained at no charge by contacting us at 806 W. Monte Vista Avenue, P.O. Box 3278, Turlock California, 95381-3278 or by calling (209) 667-2366.

YOSEMITE FARM CREDIT, ACA
CONSOLIDATED STATEMENTS OF CONDITION
March 31, 2024
($ in thousands)

	March 31, 2024	December 31, 2023
	(unaudited)	(audited)
ASSETS		
Loans	$ 4,413,891	$ 4,411,509
Less allowance for loan losses	5,695	5,577
Net loans	4,408,196	4,405,932
Cash	—	24,801
Investment securities - held-to-maturity	1,980	2,227
Accrued interest receivable	56,519	90,839
Investment in CoBank, ACB	108,053	107,208
Premises and equipment, net	18,321	18,439
Other assets	12,057	28,853
Total assets	$ 4,605,126	$ 4,678,299
LIABILITIES		
Note payable to CoBank, ACB	$ 3,676,313	$ 3,736,962
Advance conditional payments	114,055	120,400
Accrued interest payable	13,169	12,917
Patronage distribution payable	—	33,500
Other liabilities	10,657	12,670
Total liabilities	3,814,194	3,916,449
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Capital stock and participation certificates	1,898	1,911
Unallocated retained earnings	789,033	759,938
Accumulated other comprehensive Income	1	1
Total shareholders' equity	790,932	761,850
Total liabilities and shareholders' equity	$ 4,605,126	$ 4,678,299

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

YOSEMITE FARM CREDIT, ACA
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
March 31, 2024
($ in thousands)

	Quarter Ended 3/31/2024	Quarter Ended 3/31/2023 (unaudited)
INTEREST INCOME		
Loans	$ 74,802	$ 61,678
Investment securities	28	42
Total interest income	74,830	61,720
INTEREST EXPENSE		
Note payable to CoBank, ACB	38,476	29,411
Advance conditional payments	1,551	929
Total interest expense	40,027	30,340
Net interest income	34,803	31,380
Provision for credit losses	337	100
Net interest income after provision for credit losses	34,466	31,280
NON-INTEREST INCOME		
Patronage distribution from Farm Credit Institutions	5,898	5,824
Financially related services income	23	42
Other non-interest income	431	184
Total non-interest income	6,352	6,050
NON-INTEREST EXPENSE		
Salaries and employee benefits	7,613	7,209
Occupancy and equipment	535	494
Farm Credit Insurance Fund premium	896	1,484
Other non-interest expense	2,677	2,556
Total non-interest expense	11,721	11,743
Income before income taxes	29,097	25,587
Provision for income taxes	2	—
Net income	$ 29,095	$ 25,587
COMPREHENSIVE INCOME		
Amortization of retirement costs	—	—
Total comprehensive income	$ 29,095	$ 25,587

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

YOSEMITE FARM CREDIT, ACA
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
March 31, 2024
($ in thousands)

	Capital Stock & Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at December 31, 2022	$ 1,943	$ 689,019	$ (2)	$ 690,960
Comprehensive income		25,587		25,587
Stock and participation certificates issued	19			19
Stock and participation certificates retired	(48)			(48)
Cumulative adjustment for adoption of the Credit loss accounting standard		7,704		7,704
Balance at March 31, 2023 (unaudited)	$ 1,914	$ 722,310	$ (2)	$ 724,222
Balance at December 31, 2023	$ 1,911	$ 759,938	$ 1	$ 761,850
Comprehensive income		29,095		29,095
Stock and participation certificates issued	21			21
Stock and participation certificates retired	(34)			(34)
Balance at March 31, 2024 (unaudited)	1,898	789,033	1	790,932

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

YOSEMITE FARM CREDIT, ACA
CONSOLIDATED STATEMENTS OF CASH FLOWS
March 31, 2024
($ in thousands)

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 29,095	$ 25,587
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	337	100
Depreciation and amortization	323	296
Stock patronage received from CoBank	(226)	(193)
Changes in operating assets and liabilities:		
Decrease in accrued interest receivable	34,320	13,682
Decrease in other assets	16,177	15,619
Increase in accrued interest payable	252	566
Decrease in other liabilities	(2,231)	(4,092)
Net cash provided by operating activities	78,047	51,565
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (increase) decrease in loans	(2,382)	106,875
Retirement of stock in CoBank	—	2,828
Payments received on investment securities	247	523
Purchase of premises and equipment, net	(206)	(246)
Net cash (used in) provided by in investing activities	(2,341)	109,980
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net repayment on note payable to CoBank	(60,649)	(175,057)
(Decrease) increase in advance conditional payments	(6,345)	32,945
Patronage distributions	(33,500)	(31,800)
Retirement of capital stock and participation certificates, net	(13)	(29)
Net cash used in financing activities	(100,507)	(173,941)
Net decrease in cash	(24,801)	(12,396)
Cash at beginning of period	24,801	12,396
Cash at end of period	$ —	$ —
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 39,775	$ 29,774
Cash paid for income taxes	$ —	$ —
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Transfer of allowance to reserve for unfunded commitments	$ (219)	$ (14)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Thousands, Except as Noted)
(Unaudited)

Note 1 – Organization and Significant Accounting Policies

A description of the organization and operations of Yosemite Farm Credit, ACA, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2023, are contained in the 2023 Annual Report to Stockholders Annual Report. These unaudited first quarter 2024 financial statements should be read in conjunction with the 2023 Annual Report to Stockholders.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (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.

In the opinion of management, the unaudited financial information is complete and reflects, all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. 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 or Issued 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 System’s financial condition, results of operations or cash flows.

In November 2023, the FASB issued ASU 2023-07 - Segment Reporting: Improvements to Reportable Segment Disclosures. The standard requires a public entity to disclose, on an annual and interim basis, the following:

- significant segment expenses that are readily provided to the chief operating decision maker (“CODM”) and included in segment profit or loss,
- composition and aggregate amount of other segment items, which represent the difference between profit or loss and segment revenues less significant segment expenses,
- the title and position of the CODM, and
- an explanation of how the CODM uses the reported segment measures in assessing segment performance and deciding how to allocate resources.

Even if a public entity has a single reportable segment, it is required to provide all disclosures set forth in the standard and all existing segment disclosures. The amendments in the standard are to be applied retrospectively to all prior periods presented and are effective for fiscal years beginning after December 31, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The System is currently assessing the potential impact of this standard on its disclosures.

Note 2 – Loans and Allowance for Loan Losses

A summary of loans follows:

	March 31, 2024	December 31, 2023
Real estate mortgage	$ 3,053,985	$ 3,034,341
Production & intermediate-term	708,224	769,752
Agribusiness	586,226	548,736
Communication	24,983	16,499
Energy	36,321	38,191
Water/Waste Disposal	2,632	2,458
Rural residential real estate	1,520	1,532
Total	$ 4,413,891	$ 4,411,509

Accrued interest receivable on loans of $56.5 million and $90.8 million at March 31, 2024, and December 31, 2023, have been excluded from the amortized cost of loans and reported separately in the Condensed Combined Statement of Condition. The Association has not written off any accrued interest receivable for the three months ended March 31, 2024.

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration (FCA) regulations.

The following table presents information regarding participation purchased and sold at March 31, 2024:

	Participations with Other Farm Credit Institutions		Participations with Non-Farm Credit Institutions		Total Participations	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 184,584	$ 344,677	$ —	$ —	$ 184,584	$ 344,677
Production and intermediate-term	71,986	126,957	—	—	71,986	126,957
Agribusiness	366,895	138,044	5,276	—	372,171	138,044
Communication	24,983	—	—	—	24,983	—
Energy	36,321	—	—	—	36,321	—
Water/Waste Disposal	2,632	—	—	—	2,632	—
Total	$ 687,401	$ 609,678	$ 5,276	$ —	$ 692,677	$ 609,678

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 entity 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 entity 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 institution 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 (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain. 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,
- doubtful — assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable, and
- loss — assets are considered uncollectible.

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

	March 31, 2024	December 31, 2023
Real estate mortgage		
Acceptable	91.1 %	91.9 %
OAEM	4.1	5.3
Substandard	4.8	2.8
Total	100.0 %	100.0 %
Production & intermediate-term		
Acceptable	88.9 %	89.8 %
OAEM	5.1	5.9
Substandard	5.8	4.1
Doubtful	0.2	0.2
Total	100.0 %	100.0 %
Agribusiness		
Acceptable	92.3 %	93.1 %
OAEM	6.1	5.4
Substandard	1.4	1.2
Doubtful	0.2	0.3
Total	100.0 %	100.0 %
Communication		
Acceptable	100.0 %	100.0 %
Total	100.0 %	100.0 %
Energy		
Acceptable	100.0 %	100.0 %
Total	100.0 %	100.0 %
Water/Waste Disposal		
Acceptable	100.0 %	100.0 %
Total	100.0 %	100.0 %
Rural residential real estate		
Acceptable	100.0 %	100.0 %
Total	100.0 %	100.0 %
All Loans		
Acceptable	91.0 %	91.8 %
OAEM	4.5	5.3
Substandard	4.4	2.8
Doubtful	0.1	0.1
Total	100.0 %	100.0 %

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

	March 31, 2024	December 31, 2023
Nonaccrual loans:		
Real estate mortgage	$ 18,390	$ 13,618
Production and intermediate-term	6,593	6,770
Agribusiness	1,029	1,604
Total nonaccrual loans	$ 26,012	$ 21,992
Accrual loans 90 days or more past due		
Real estate mortgage	23,353	2,602
Production and intermediate-term	2,431	1,219
Total accruing loans 90 days or more past due	25,784	3,821
Total nonperforming loans	51,796	25,813
Other property owned	—	—
Total nonperforming assets	$ 51,796	$ 25,813
Nonaccrual loans as a percentage of total loans	0.59 %	0.50 %
Nonperforming assets as a percentage of total loans and other property owned	1.17 %	0.59 %
Nonperforming assets as a percentage of capital	6.55 %	3.39 %

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 ending March 31, 2024 and December 31, 2023.

March 31, 2024	Amortized Cost with Allowance	Amortized Cost without Allowance	Interest Income Recognized
Nonaccrual loans:			
Real estate mortgage	$ —	$ 18,390	$ 4
Production and intermediate-term	1,700	4,893	90
Agribusiness	1,029	—	—
Total nonaccrual loans	$ 2,729	$ 23,283	$ 94

December 31, 2023	Amortized Cost with Allowance	Amortized Cost without Allowance	Interest Income Recognized
Nonaccrual loans:			
Real estate mortgage	$ —	$ 13,619	$ 50
Production and intermediate-term	1,702	5,068	73
Agribusiness	1,603	—	—
Total nonaccrual loans	$ 3,305	$ 18,687	$ 123

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	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 38,770	$ 35,024	$ 73,794	$ 2,980,191	$ 3,053,985	$ 23,353
Production and intermediate-term	12,139	7,268	19,407	688,817	708,224	2,431
Agribusiness	6,631	1,029	7,660	578,566	586,226	—
Communication	—	—	—	24,983	24,983	—
Energy	—	—	—	36,321	36,321	—
Water/Waste Disposal	—	—	—	2,632	2,632	—
Rural residential real estate	—	—	—	1,520	1,520	—
Total	$ 57,540	$ 43,321	$ 100,861	$ 4,313,030	$ 4,413,891	$ 25,784

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	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 32,919	$ 7,986	$ 40,905	$ 2,993,436	$ 3,034,341	$ 2,602
Production and intermediate-term	7,334	5,895	13,229	756,523	769,752	1,219
Agribusiness	11,030	1,604	12,634	536,102	548,736	—
Communication	—	—	—	16,499	16,499	—
Energy	—	—	—	38,191	38,191	—
Water/Waste Disposal	—	—	—	2,458	2,458	—
Rural residential real estate	—	—	—	1,532	1,532	—
Total	$ 51,283	$ 15,485	$ 66,768	$ 4,344,741	$ 4,411,509	$ 3,821

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.

Allowance for Credit Losses

The credit risk rating methodology is a key component of the institution’s allowance for credit losses evaluation, and is generally incorporated into the institution’s loan underwriting standards and internal lending limits. In addition, borrower and commodity concentration lending and leasing limits have been established by the institution to manage credit exposure. The regulatory limit to a single borrower or lessee is 15% of the institution’s lending and leasing limit base but the institutions’ boards of directors have generally established more restrictive lending limits. This limit applies to Associations with long-term and short- and intermediate-term lending authorities, and to the Banks’ (other than CoBank) loan participations.

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

Allowance for Loan Losses	Balance at December 31, 2023	Charge-offs and Recoveries Net	Transfers (to) from Reserve for Unfunded Commitments	Provision for loan losses (loan loss reversals)	Balance at March 31, 2024
Real estate mortgage	$ 839	$ —	$ 14	$ 30	$ 883
Production and intermediate-term	3,125	—	(133)	470	3,462
Agribusiness	1,413	—	(109)	(94)	1,210
Communication	130	—	(2)	(22)	106
Energy	69	—	11	(47)	33
Rural residential real estate	1	—	—	—	1
Total	$ 5,577	$ —	$ (219)	$ 337	$ 5,695

Allowance for Unfunded Commitment	Balance at December 31, 2023	Transfers from (to) Allowance for Loan Losses	Balance at March 31, 2024	Total allowance for credit losses
Real estate mortgage	$ 85	$ (14)	$ 71	$ 954
Production & intermediate-term	1,022	133	1,155	4,617
Agribusiness	67	109	176	1,386
Communication	138	2	140	246
Energy	23	(11)	12	45
Rural residential real estate	—	—	—	1
Total	$ 1,335	$ 219	$ 1,554	$ 7,249

Allowance for Loan Losses	Balance at December 31, 2022	Cumulative effect of change in acc principle	Balance at January 1, 2023	Charge-offs and Recoveries Net	Transfers (to) from Reserve for Unfunded Commitments	Provision for loan losses (loan loss reversal)	Balance at March 31, 2023
Real estate mortgage	$ 4,859	$ (4,130)	$ 729	$ —	$ 11	$ 9	$ 749
Production and intermediate-term	4,804	(2,116)	2,688	—	(44)	107	2,751
Agribusiness	2,745	(826)	1,919	—	15	—	1,934
Communication	19	23	42	—	2	(20)	24
Energy	43	(19)	24	—	2	4	30
Rural residential real estate	1	—	1	—	—	—	1
Total	$ 12,471	$ (7,068)	$ 5,403	$ —	$ (14)	$ 100	$ 5,489

Allowance for Unfunded Commitment	Balance at December 31, 2022	Cumulative effect of change in acc principle	Balance at January 1, 2023	Transfers from (to) Allowance for Loan Losses	Balance at March 31, 2023	Total allowance for credit losses
Real estate mortgage	$ 215	$ (120)	$ 95	$ (11)	$ 84	$ 833
Production & intermediate-term	802	(220)	582	44	626	3,377
Agribusiness	394	(313)	81	(15)	66	2,000
Communication	8	23	31	(2)	29	53
Energy	14	(6)	8	(2)	6	36
Rural residential real estate	—	—	—	—	—	1
Total	$ 1,433	$ (636)	$ 797	$ 14	$ 811	$ 6,300

The allowance for credit losses (ACL) represents the estimated current expected credit losses over the remaining contractual life of the loans measured at amortized cost and certain off-balance sheet credit exposures. The ACL takes into consideration relevant information about past events, current conditions and reasonable and supportable macroeconomic forecasts of future conditions. The contractual term excludes expected extensions, renewals and modifications unless the extension or renewal options are not unconditionally cancellable. The ACL comprises the allowance for credit losses on loans (ACLL) and the allowance for unfunded commitments, which is presented on the balance sheet in other liabilities. The association uses a single economic scenario over reasonable and supportable forecast period of 12 months. Subsequent to the forecast period, the institution explicitly reverts to long run historical loss experience beyond the 12 months to inform the estimate of losses for the expected life of the loan portfolio. The economic forecasts are updated on a quarterly basis and incorporate macroeconomic variables, including unemployment rates, real gross domestic product levels, inflation rates, federal funds rate, export levels and government and consumer spending, as well as agricultural commodity and input prices.

The Association did not have any loan modifications granted to borrowers experiencing financial difficulty during quarter ending March 31, 2024.

Note 3 – Capital

The following sets forth the regulatory capital ratio requirements and ratios at March 31, 2024:

Ratios	**Ratios as of March 31, 2024**	**Minimum with Buffer***	**Minimum Requirement**
Common Equity Tier 1 Capital	14.15%	7.0%	4.5%
Tier 1 Capital	14.15%	8.5%	6.0%
Total Capital	14.29%	10.5%	8.0%
Tier 1 Leverage**	14.85%	5.0%	4.0%
Unallocated Retained Earnings (URE) and URE Equivalents Leverage	14.81%	1.5%	1.5%
Permanent Capital	14.16%	7.0%	7.0%

If the capital ratios fall below the total 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.

An existing regulation empowers FCA to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. This regulation has not been utilized to date. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

Note 4 – 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. The fair value measurement is not an indication of liquidity. See Note 15 to the 2023 Annual Report to Stockholders for a more complete description. There are no assets or liabilities measured at fair value on a recurring basis at March 31, 2024.

Assets and liabilities measured at fair value on a non-recurring basis are summarized below ($ thousands).

March 31, 2024	Total Fair Value Level 3	Total Gains (Losses)
Assets:		
Impaired loans	$256.2	$(2,472.4)

December 31, 2023	Total Fair Value Level 3	Total Gains (Losses)
Assets:		
Impaired loans	$374.7	$(2,930.5)

With regard to nonrecurring measurements for impaired loans, it is not practicable to provide specific information on inputs as each collateral property is unique. The Association utilizes appraisals to value these loans and take into account unobservable inputs such as, income and expense, comparable sales, replacement cost and comparability adjustments.

Valuation Techniques

As more fully discussed in Note 15 of the 2023 Annual Report to Stockholders, the FASB 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 by the System institution for assets and liabilities measured at fair value. For a more complete description, see Notes to the 2023 Annual Report to Stockholders.

> ***Loans Evaluated for Impairment***: For certain loans evaluated for impairment under FASB 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.

<u>Note 5 – Subsequent Events</u>

The Association has evaluated subsequent events through May 3, 2024, which is the date the financial statements were issued, and no material subsequent events were identified.