FCS FINANCIAL

Growing Relationships. Creating Opportunities.™

A FARM CREDIT COOPERATIVE

Quarterly Report
March 31, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of FCS Financial, ACA and its subsidiaries, FCS Financial, FLCA and FCS Financial, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2023.

Due to the nature of our financial relationship with AgriBank, FCB (AgriBank), the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank financial reports or additional copies of our report, contact us at:

FCS Financial, ACA
1934 East Miller Street
Jefferson City, MO 65101
(573) 635-7956
www.myfcsfinancial.com
jeffersoncitymo@myfcsfinancial.com

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.AgriBank.com
FinancialReporting@AgriBank.com

FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2023 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

After record highs in 2022, net farm income decreased 16% in 2023 to $156 billion due to lower commodity prices and increased production expenses. The trend is expected to continue in 2024 as the United States Department of Agriculture (USDA) forecasts net farm income of $116 billion, a 25.6% decline from 2023, marked by a $21 billion expected drop in cash receipts for agricultural goods and $17 billion increase in production expenses. Despite the decline, 2024 expected net farm income remains above the ten-year average of $105 billion. Agricultural exports declined in 2023 leading to a trade deficit. The USDA forecasted a larger trade deficit in 2024 with exports projected to decline 4.6% and imports increasing 2.9%.

The United States (U.S.) economy continues to outperform, and inflation sits at 3.2%, above the Federal Reserve's 2% target. Lingering inflation, persistent consumer spending, and a strong stock market remain a headwind for lower interest rates in 2024. The Farm Bill was extended to September 2024 and there is uncertainty whether there will be a new five-year farm bill passed in 2024.

The 2024 crop season begins with a notable decline in prices compared to a year ago. Missouri farmers received $6.82 a bushel for corn and $15.20 a bushel for soybeans in March 2023. Prices as of February 2024 were $4.49 a bushel for corn and $12.00 a bushel for soybeans, representing declines of 34% and 21%. The USDA Prospective Plantings Report forecasts a 5% decline in planted corn acres and a 3% increase in planted soybean acres. The USDA Grain Stocks reports showed corn and soybean stocks of 8.4 billion and 1.9 billion bushels, up 13% and 9% compared to a year ago.

Cattle prices remain strong for producers, exceeding the same period last year. Strong fed cattle prices and tightening cattle supplies continued to support stocker and feeder cattle prices during the first quarter of 2024. Fed cash cattle prices hit an all-time high in April 2024, exceeding the previous record high set in 2014. The USDA estimated that the U.S. beef cattle herd hit a 61-year low at the beginning of 2024 due to multi-year droughts and strong retail demand. According to the USDA, the U.S. cattle herd contracted 2% during 2023, compared to a 3.7% decline in Missouri. While drought conditions indicate that most of Missouri is at least abnormally dry, conditions improved throughout the first quarter of 2024.

Farmland values in the Association's territory continued to stabilize during the first quarter of 2024. There has been a noted increase in auction and private treaty sales consistent with historical trends. Factors influencing prices continue to be soil fertility, size of acreage, and location. Demand remains strong for wooded and recreational properties based on proximity to larger population centers.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $6.2 billion as of March 31, 2024, an increase of $150.0 million from December 31, 2023.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2023. Adversely classified loans were 1.8% of the portfolio as of March 31, 2024, and December 31, 2023. Adversely classified loans are loans we have identified as showing some credit weakness according to our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for credit losses on loans.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. As of March 31, 2024, $293.9 million of our loans were substantially guaranteed under these government programs.

Nonperforming Assets

Components of Nonperforming Assets

(dollars in thousands) As of:	**March 31, 2024**	December 31, 2023
Loans:		
Nonaccrual	**$21,901**	$16,637
Accruing loans 90 days or more past due	**--**	289
Total nonperforming loans	**21,901**	16,926
Other property owned	**68**	68
Total nonperforming assets	**$21,969**	$16,994
Total nonperforming loans as a percentage of total loans	**0.4%**	0.3%
Nonaccrual loans as a percentage of total loans	**0.4%**	0.3%
Current nonaccrual loans as a percentage of total nonaccrual loans	**83.5%**	57.3%
Total delinquencies as a percentage of total loans[1]	**0.1%**	0.2%

[1]Total delinquencies include accrual and nonaccrual loans 30 days or more past due.

Our nonperforming assets have increased from December 31, 2023, but remained at acceptable levels. Despite the increase in nonperforming assets, total nonperforming loans as a percentage of total loans were well within our established risk management guidelines.

The increase in nonaccrual loans was primarily due to loans within our Capital Markets portfolio that transferred to nonaccrual. Nonaccrual loans remained at an acceptable level as of March 31, 2024, and December 31, 2023.

Our accounting policy requires loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, accruing loans 90 days or more past due were eligible to remain in accruing status.

Allowance for Credit Losses on Loans

The allowance for credit losses on loans is an estimate of expected credit losses in our portfolio. We determine the appropriate level of allowance for credit losses on loans based on a disciplined process and methodology that incorporates expected probabilities of default and loss given default based on historical portfolio performance, forecasts of future economic conditions, and management's judgment with respect to unique aspects of current and expected conditions that may not be contemplated in historical loss experience or forecasted economic conditions.

Allowance for Credit Losses on Loans Coverage Ratios

As of:	**March 31, 2024**	December 31, 2023
Allowance for credit losses on loans as a percentage of:		
Loans	**0.2%**	0.2%
Nonaccrual loans	**58.0%**	67.1%
Total nonperforming loans	**58.0%**	65.9%

Total allowance for credit losses on loans was $12.7 million as of March 31, 2024, and $11.2 million as of December 31, 2023. The increase from December 31, 2023, was primarily related to specific reserves established on loans within our Capital Markets portfolio during the first quarter of 2024.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the three months ended March 31,	**2024**	2023
Net income	**$31,430**	$28,516
Return on average assets	**1.9%**	1.8%
Return on average members' equity	**10.5%**	10.1%

Changes presented in the profitability information table relate directly to:

- Changes in net income discussed in this section
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity, and Capital section

Changes in Significant Components of Net Income

(in thousands) For the three months ended March 31,	**2024**	2023	**Increase (decrease) in net income**
Net interest income	**$41,597**	$39,418	**$2,179**
Provision for credit losses	**1,397**	2,000	**603**
Non-interest income	**10,004**	9,265	**739**
Non-interest expense	**18,557**	18,426	**(131)**
Provision for (benefit from) income taxes	**217**	(259)	**(476)**
Net income	**$31,430**	$28,516	**$2,914**

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable is scheduled to mature on December 31, 2025. We intend to renegotiate the note payable no later than the maturity date. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. However, we maintain some exposure to interest rates, primarily from loans to customers which may not have a component of our line of credit with an exact repricing attribute. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

The components of cost of funds associated with our note payable include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

We were not subject to a risk premium as of March 31, 2024, or December 31, 2023.

Total members' equity increased $20.7 million from December 31, 2023, primarily due to net income for the period partially offset by patronage distribution accruals.

The Farm Credit Administration (FCA) Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 6 in our 2023 Annual Report for a more complete description of these ratios.

Regulatory Capital Requirements and Ratios

As of:	**March 31, 2024**	December 31, 2023	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**14.7%**	15.5%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**14.7%**	15.5%	6.0%	2.5%	8.5%
Total capital ratio	**14.8%**	15.7%	8.0%	2.5%	10.5%
Permanent capital ratio	**14.7%**	15.6%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**15.7%**	16.7%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**15.5%**	16.5%	1.5%	N/A	1.5%

Capital ratios are directly impacted by the changes in capital, as more fully explained in this section, the changes in assets, as discussed in the Loan Portfolio section, and off-balance sheet commitments, as disclosed in Note 10 in our 2023 Annual Report.

CERTIFICATION

The undersigned have reviewed the March 31, 2024, Quarterly Report of FCS Financial, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Kenneth Bergmann
Chairperson of the Board
FCS Financial, ACA

Robert Guinn
Chief Executive Officer
FCS Financial, ACA

Rick Krueger
Chief Financial Officer
FCS Financial, ACA

May 9, 2024

CONSOLIDATED STATEMENTS OF CONDITION

FCS Financial, ACA
(in thousands)

As of:	**March 31, 2024**	December 31, 2023
	(Unaudited)	
ASSETS		
Loans	**$6,181,485**	$6,031,485
Allowance for credit losses on loans	**12,699**	11,158
Net loans	**6,168,786**	6,020,327
Investment in AgriBank, FCB	**224,516**	224,516
Accrued interest receivable	**75,085**	70,775
Other assets	**99,134**	103,406
Total assets	**$6,567,521**	$6,419,024
LIABILITIES		
Note payable to AgriBank, FCB	**$5,242,051**	$5,080,272
Accrued interest payable	**48,476**	45,329
Deferred tax liabilities, net	**1,352**	1,134
Patronage distribution payable	**11,860**	45,230
Other liabilities	**51,452**	55,468
Total liabilities	**5,355,191**	5,227,433
Contingencies and commitments (Note 3)		
MEMBERS' EQUITY		
Protected members' equity	**1**	1
Capital stock and participation certificates	**12,303**	12,280
Unallocated surplus	**1,200,789**	1,180,107
Accumulated other comprehensive loss	**(763)**	(797)
Total members' equity	**1,212,330**	1,191,591
Total liabilities and members' equity	**$6,567,521**	$6,419,024

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FCS Financial, ACA
(in thousands)
(Unaudited)

	Three Months Ended	
For the period ended March 31,	**2024**	2023
Interest income	**$90,073**	$77,931
Interest expense	**48,476**	38,513
Net interest income	**41,597**	39,418
Provision for credit losses	**1,397**	2,000
Net interest income after provision for credit losses	**40,200**	37,418
Non-interest income		
Patronage income	**7,231**	7,268
Financially related services income	**321**	315
Fee income	**2,447**	1,642
Other non-interest income	**5**	40
Total non-interest income	**10,004**	9,265
Non-interest expense		
Salaries and employee benefits	**9,881**	9,252
Other operating expense	**8,676**	9,162
Other non-interest expense	**--**	12
Total non-interest expense	**18,557**	18,426
Income before income taxes	**31,647**	28,257
Provision for (benefit from) income taxes	**217**	(259)
Net income	**$31,430**	$28,516
Other comprehensive income		
Employee benefit plans activity	**$34**	$ --
Total other comprehensive income	**34**	--
Comprehensive income	**$31,464**	$28,516

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

FCS Financial, ACA
(in thousands)
(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2022	$3	$12,310	$1,098,652	$ --	$1,110,965
Cumulative effect of change in accounting principle	--	--	5,891	--	5,891
Net income	--	--	28,516	--	28,516
Unallocated surplus designated for patronage distributions	--	--	(11,215)	--	(11,215)
Capital stock and participation certificates issued	--	140	--	--	140
Capital stock and participation certificates retired	--	(230)	--	--	(230)
Balance at March 31, 2023	$3	$12,220	$1,121,844	$ --	$1,134,067
Balance at December 31, 2023	$1	$12,280	$1,180,107	($797)	$1,191,591
Net income	**--**	**--**	**31,430**	**--**	**31,430**
Other comprehensive income	**--**	**--**	**--**	**34**	**34**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(10,748)**	**--**	**(10,748)**
Capital stock and participation certificates issued	**--**	**219**	**--**	**--**	**219**
Capital stock and participation certificates retired	**--**	**(196)**	**--**	**--**	**(196)**
Balance at March 31, 2024	**$1**	**$12,303**	**$1,200,789**	**($763)**	**$1,212,330**

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim financial information and conform to generally accepted accounting principles in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the three months ended March 31, 2024, are not necessarily indicative of the results to be expected for the year ending December 31, 2024. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2023.

Principles of Consolidation

The Consolidated Financial Statements present the consolidated financial results of FCS Financial, ACA and its subsidiaries FCS Financial, FLCA and FCS Financial, PCA. All material intercompany transactions and balances have been eliminated in consolidation.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic business entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements in alignment with other System institutions.

Standard and effective date	Description	Adoption status and financial statement impact
In December 2023, the FASB issued Accounting Standards Update 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." This guidance is effective for annual periods beginning after December 15, 2025.	This guidance requires more transparency about income tax information through improvements to income tax disclosures. The improvements applicable to our Association will require adding percentages and information by state jurisdiction to the rate reconciliation and income taxes paid disclosures.	We expect to adopt the standard as of January 1, 2026. The adoption of this guidance is not expected to have a material impact on our financial statements, but will modify certain disclosures.

NOTE 2: LOANS AND ALLOWANCE FOR CREDIT LOSSES ON LOANS

Throughout Note 2 accrued interest receivable on loans of $75.1 million as of March 31, 2024, and $70.8 million as of December 31, 2023, has been excluded from the amortized cost of loans and is presented in "Accrued interest receivable" in the Consolidated Statements of Condition.

Loans by Type

(dollars in thousands)

As of:	**March 31, 2024**		December 31, 2023	
	Amortized Cost	%	Amortized Cost	%
Real estate mortgage	**$3,560,228**	**57.6%**	$3,453,988	57.2%
Production and intermediate-term	**787,716**	**12.7%**	819,736	13.6%
Agribusiness	**1,309,055**	**21.2%**	1,242,034	20.6%
Other	**524,486**	**8.5%**	515,727	8.6%
Total	**$6,181,485**	**100.0%**	$6,031,485	100.0%

The other category is primarily composed of rural infrastructure related loans and other diversified industries in our Capital Markets portfolio.

Delinquency

Aging Analysis of Loans at Amortized Cost

(in thousands) **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	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$1,406**	**$116**	**$1,522**	**$3,558,706**	**$3,560,228**	**$ --**
Production and intermediate-term	**757**	**1,858**	**2,615**	**785,101**	**787,716**	**--**
Agribusiness	**--**	**1,251**	**1,251**	**1,307,804**	**1,309,055**	**--**
Other	**34**	**--**	**34**	**524,452**	**524,486**	**--**
Total	**$2,197**	**$3,225**	**$5,422**	**$6,176,063**	**$6,181,485**	**$ --**

As of 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	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$1,600	$4,986	$6,586	$3,447,402	$3,453,988	$ --
Production and intermediate-term	1,264	1,558	2,822	816,914	819,736	289
Agribusiness	1,693	3	1,696	1,240,338	1,242,034	--
Other	162	--	162	515,565	515,727	--
Total	$4,719	$6,547	$11,266	$6,020,219	$6,031,485	$289

Nonaccrual Loans

Nonaccrual Loans Information

	As of March 31, 2024		**For the Three Months Ended March 31, 2024**
(in thousands)	Amortized Cost	Amortized Cost Without Allowance	Interest Income Recognized
Nonaccrual loans:			
Real estate mortgage	**$12,675**	**$7,741**	**$60**
Production and intermediate-term	**2,575**	**999**	**25**
Agribusiness	**5,698**	**--**	**--**
Other	**953**	**361**	**4**
Total	**$21,901**	**$9,101**	**$89**

	As of December 31, 2023		For the Three Months Ended March 31, 2023
	Amortized Cost	Amortized Cost Without Allowance	Interest Income Recognized
Nonaccrual loans:			
Real estate mortgage	$11,117	$6,183	$25
Production and intermediate-term	2,752	1,470	16
Agribusiness	1,804	--	22
Other	964	356	--
Total	$16,637	$8,009	$63

Reversals of interest income on loans that transferred to nonaccrual status were not material for the three months ended March 31, 2024, or 2023.

Loan Modifications Granted to Borrowers Experiencing Financial Difficulty

Included within our loans are loan modifications; some of which are granted to borrowers experiencing financial difficulty. Modifications are one or a combination of principal forgiveness, interest rate reduction, other-than-insignificant term extension, or other-than-insignificant payment deferrals. Other-than-insignificant term extensions are defined as those greater than or equal to six months. Covenant waivers and modifications of contingent acceleration clauses are not considered term extensions. Other-than-insignificant payment deferrals are defined as cumulative or individual payment delays greater than or equal to six months.

Loan Modifications at Amortized Cost[1]

(dollars in thousands) **For the three months ended March 31, 2024**	Term Extension	Combination - Interest Rate Reduction and Term Extension	Total	Percentage of Total Loans
Production and intermediate-term	**$381**	**$605**	**$986**	**0.0%**
Agribusiness	**3,597**	**--**	**3,597**	**0.1%**
Total	**$3,978**	**$605**	**$4,583**	**0.1%**
Loan modifications granted as a percentage of total loans	**0.1%**	**0.0%**	**0.1%**	

For the three months ended March 31, 2023	Term Extension	Combination - Interest Rate Reduction and Term Extension	Total	Percentage of Total Loans
Real estate mortgage	$49	$ --	$49	0.0%
Production and intermediate-term	351	--	351	0.0%
Agribusiness	1,175	--	1,175	0.0%
Total	$1,575	$ --	$1,575	0.0%
Loan modifications granted as a percentage of total loans	0.0%	--	0.0%	

[1]Excludes loans that were modified during the period, but were paid off or sold prior to period end.

Financial Effect of Loan Modifications

For the three months ended March 31, 2024	Weighted Average Interest Rate Reduction	Weighted Average Term Extension (months)	Principal Forgiveness ($ in thousands)
Production and intermediate-term			
Term extension		**12**	
Combination - interest rate reduction and term extension	**0.1%**	**12**	
Agribusiness			
Term extension		**12**	
Principal forgiveness			**5,214**

For the three months ended March 31, 2023	Weighted Average Interest Rate Reduction	Weighted Average Term Extension (months)	Principal Forgiveness ($ in thousands)
Real estate mortgage			
Term extension		120	
Production and intermediate-term			
Term extension		11	
Agribusiness			
Term extension		30	

We had loans to borrowers experiencing financial difficulty with payment deferral in the real estate mortgage loan category of $116 thousand that defaulted during the three months ended March 31, 2024, in which the modifications were within the twelve months preceding the default. There were no loans to borrowers experiencing financial difficulty that defaulted during the three months ended March 31, 2023, in which the modifications were within twelve months preceding the default.

The following table presents the payment status at amortized cost of loans that have been modified for borrowers experiencing financial difficulty within twelve months of the respective reporting period.

Payment Status of Loan Modifications[1]

(in thousands) **As of March 31, 2024**	Not Past Due or Less Than 30 Days Past Due	90 Days or More Past Due	Total
Real estate mortgage	**$1,276**	**$116**	**$1,392**
Production and intermediate-term	**10,340**	**34**	**10,374**
Agribusiness	**14,747**	**--**	**14,747**
Total	**$26,363**	**$150**	**$26,513**

As of March 31, 2023	Not Past Due or Less Than 30 Days Past Due	90 Days or More Past Due	Total
Real estate mortgage	$49	$ --	$49
Production and intermediate-term	351	--	351
Agribusiness	1,175	--	1,175
Total	$1,575	$ --	$1,575

[1]Excludes loans that were modified during the period, but were paid off or sold prior to period end.

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty was not material at March 31, 2024, or 2023.

There were no material commitments to lend to borrowers whose loans have been modified during the three months ended March 31, 2024. Commitments to lend to borrowers experiencing financial difficulty whose loans were modified during the year ended December 31, 2023, were $5.6 million.

Allowance for Credit Losses

Our loan portfolio is divided into segments primarily based on loan type which are the segments used to estimate the allowance for credit losses. As our lending authorities limit the types of loans we can originate, our portfolio is concentrated in the agriculture sector. The credit risk associated with each of our portfolio segments includes a strong correlation to agricultural commodity prices and input costs. Specifically for our real estate mortgage segment, the value of agricultural land that serves as collateral is a key risk characteristic. Additionally, unemployment rates and gross domestic product levels are additional key risk characteristics attributable to our portfolio. We consider these characteristics, among others, in assigning internal risk ratings and forecasting credit losses on our loan portfolio and related unfunded commitments.

We develop our reasonable and supportable forecast by considering a multitude of macroeconomic variables. Our forecasts of U.S. net farm income, U.S. real gross domestic product, and the U.S. unemployment rate represent the key macroeconomic variables that most significantly affect the estimate of the allowance for credit losses on loans and unfunded commitments.

We utilize a single macroeconomic scenario in the estimate of the allowance for credit losses on loans and unfunded commitments which represents the most probable forecasted outcome. Subsequent changes in the macroeconomic forecasts will be reflected in the provision for credit losses in future periods.

Changes in Allowance for Credit Losses

(in thousands) Three months ended March 31,	**2024**	2023
Allowance for Credit Losses on Loans		
Balance at beginning of period	**$11,158**	$17,423
Cumulative effect of change in accounting principle	**--**	(8,687)
Provision for credit losses on loans	**1,543**	2,350
Loan recoveries	**2**	5
Loan charge-offs	**(4)**	(4)
Balance at end of period	**$12,699**	$11,087
Allowance for Credit Losses on Unfunded Commitments		
Balance at beginning of period	**$1,260**	$ --
Cumulative effect of change in accounting principle	**--**	1,088
Provision for credit losses on unfunded commitments	**(146)**	(350)
Balance at end of period	**$1,114**	$738
Total allowance for credit losses	**$13,813**	$11,825

The change in the allowance for credit losses on loans from December 31, 2023, was primarily driven by specific reserves established on loans within our Capital Markets portfolio during the first quarter of 2024.

NOTE 3: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

Refer to Note 10 in our 2023 Annual Report for additional detail regarding contingencies and commitments.

NOTE 4: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 in our 2023 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis as of March 31, 2024, or December 31, 2023.

Non-Recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-Recurring Basis

(in thousands)

As of March 31, 2024	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Loans	**$ --**	**$ --**	**$9,093**	**$9,093**
Other property owned	**--**	**--**	**71**	**71**

As of December 31, 2023	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Loans	$ --	$ --	$5,758	$5,758
Other property owned	--	--	71	71

Valuation Techniques

Loans: Represents the carrying amount of loans evaluated individually for credit losses and deemed to be collateral dependent. The carrying value amount is based on the estimated value of the underlying collateral, less costs to sell. When the fair value of the collateral, less costs to sell, is less than the amortized cost basis of the loan, a specific allowance for expected credit losses is established. Costs to sell represent transaction costs and are not included as a component of the collateral's estimated fair value. Typically, the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters and, therefore, are classified as Level 3 fair value measurements.

Other Property Owned: Represents the fair value of foreclosed assets measured based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, they are classified as Level 3.

NOTE 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 9, 2024, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.