

TEXAS FARM CREDIT SERVICES

2024 Quarterly Report



For the Quarter Ended June 30, 2024

REPORT OF MANAGEMENT

The consolidated financial statements of Texas Farm Credit Services (Association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. Other financial information included in the quarterly report is consistent with that in the consolidated financial statements and there are no significant changes in the Association's internal controls or in other factors that could significantly affect such controls during the year.

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.

/s/ Mark Miller

Mark Miller, Chief Executive Officer
August 7, 2024

/s/ Bobby Hobson

Bobby Hobson, Chairman, Board of Directors
August 7, 2024

/s/ Lane Pepper

Lane Pepper, Chief Financial & Risk Officer
August 7, 2024

TEXAS FARM CREDIT SERVICES MANAGEMENT’S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Texas Farm Credit Services (ACA), referred to as the “Association”, for the quarter ended June 30, 2024. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2023, Annual Report to Stockholders.

The Association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned banks and associations 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.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries, Texas Farm Credit Services, FLCA and Texas Farm Credit Services, PCA. The consolidated financial statements were prepared under the oversight of the Association’s audit committee.

Significant Events

On May 7, 2024, a Joint Board of Directors Resolution was approved by the Association and Heritage Land Bank, ACA, boards’ of directors. This Resolution documented both boards’ approval of merging the two associations. On May 29, 2024, the Farm Credit Bank of Texas approved the associations’ proposed merger. The Farm Credit Administration (FCA) is now reviewing the merger application package, with subsequent stockholder votes planned if approved. As of March 31, 2024, Heritage Land Bank, ACA, had approximately \$739 million of total assets and serves customers in 16 North and East Texas counties. Both Texas Farm Credit Services and Heritage Land Bank, ACA, receive wholesale funding from the Farm Credit Bank of Texas.

Loan Portfolio

Total loans outstanding at June 30, 2024, including nonaccrual loans and sales contracts, were \$2,402,609,252 compared to \$2,365,070,169 at December 31, 2023, reflecting an increase of 1.6 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.5 percent at June 30, 2024, compared to 0.6 percent at December 31, 2023.

The Association recorded \$0 in recoveries and \$0 in charge-offs for the quarter ended June 30, 2024, and \$0 in recoveries and \$0 in charge-offs for the same period in 2023. The Association’s allowance for loan losses was 0.1 percent and 0.1 percent of total loans outstanding as of June 30, 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. The following table illustrates the Association’s components and trends of nonperforming assets.

	June 30, 2024		December 31, 2023	
	Amount	%	Amount	%
Nonaccrual	\$ 13,009,091	100.0%	\$ 15,117,123	100.0%
90 days past due and still accruing interest	5	0.0%	5	0.0%
Nonperforming loans	13,009,096	100.0%	15,117,128	100.0%
Other property owned, net	-	0.0%	-	0.0%
Total	\$ 13,009,096	100.0%	\$ 15,117,128	100.0%

Results of Operations

The Association had net income of \$13,328,284 and \$24,809,070 for the three and six months ended June 30, 2024, as compared to net income of \$12,900,286 and \$24,269,700 for the same period in 2023, reflecting an increase of 3.3 percent and 2.2 percent, respectively. Net interest income was \$16,501,827 and \$34,327,903 for the three and six months ended June 30, 2024, compared to \$14,896,747 and \$29,686,773, for the same period in 2023, respectively.

	Six Months Ended			
	June 30, 2024		June 30, 2023	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 2,393,438,598	\$ 75,808,829	\$ 2,242,691,905	\$ 61,867,334
Investments	266,475	10,426	393,449	13,929
Total interest-earning assets	2,393,705,073	75,819,255	2,243,085,354	61,881,263
Interest-bearing liabilities	2,155,543,835	41,491,352	2,021,214,717	32,194,490
Impact of capital	<u>\$ 238,161,238</u>		<u>\$ 221,870,637</u>	
Net interest income		<u>\$ 34,327,903</u>		<u>\$ 29,686,773</u>

	2024	2023
	Average Yield	Average Yield
Yield on loans	6.37%	5.56%
Yield on investments	7.87%	7.14%
Total yield on interest-earning assets	6.37%	5.56%
Cost of interest-bearing liabilities	3.87%	3.21%
Interest rate spread	2.50%	2.35%
Net interest income as a percentage of average earning assets	2.88%	2.67%

	Six months ended		
	June 30, 2024 vs. June 30, 2023		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	\$ 4,170,107	\$ 9,771,388	\$ 13,941,495
Interest income - investments	(4,508)	1,005	(3,503)
Total interest income	4,165,599	9,772,393	13,937,992
Interest expense	2,145,604	7,151,258	9,296,862
Net interest income	<u>\$ 2,019,995</u>	<u>\$ 2,621,135</u>	<u>\$ 4,641,130</u>

Interest income for the three and six months ended June 30, 2024, increased by \$5,806,573 and \$13,937,992, or 18.2 and 22.5 percent, from the same period of 2023, primarily due to increases in yields on earning assets and an increase in average loan volume. Interest expense for the three and six months ended June 30, 2024, increased by \$4,201,493 and \$9,296,862, or 24.7 and 28.9 percent, from the same period of 2023 due to an increase in the cost of funding as well as an increase in average debt volume. Average loan volume for the second quarter of 2024 was \$2,393,438,598, compared to \$2,242,691,905 in the second quarter of 2023. The average net interest rate spread on the loan portfolio for the second quarter of 2024 was 2.50 percent, compared to 2.35 percent in the second quarter of 2023.

The Association's return on average assets for the six months ended June 30, 2024, was 2.01 percent compared to 2.11 percent for the same period in 2023. The Association's return on average equity for the six months ended June 30, 2024, was 16.84 percent, compared to 18.03 percent for the same period in 2023.

Noninterest income for the six months ended June 30, 2024, decreased by \$2,913,438, or 22.2 percent, compared to the same period of 2023, primarily due to a reduction of direct note patronage from the Farm Credit Bank of Texas. Noninterest expense for the six months ended June 30, 2024, increased by \$392,221, or 2.1 percent, compared to the same period of 2023, primarily due to an increase in salaries and employee benefits and supervisory exam expense offset by a reduction in insurance fund premiums.

Liquidity and Funding Sources

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the Bank), which obtains its funds through the issuance of System-wide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	<u>June 30, 2024</u>	<u>December 31, 2023</u>
Note payable to the Bank	\$ 2,170,591,724	\$ 2,120,945,005
Accrued interest on note payable	7,074,651	6,557,132
Total	<u>\$ 2,177,666,375</u>	<u>\$ 2,127,502,137</u>

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2026. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$2,170,591,724 as of June 30, 2024, is recorded as a liability on the Association's Consolidated Balance Sheet. The note carried a weighted average interest rate of 3.87 percent at June 30, 2024. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the GFA. The increase in note payable to the Bank and related accrued interest payable since December 31, 2023, is due to the Association's increased debt on match-funded loan assets. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$232,277,853 at June 30, 2024. The maximum amount the Association may borrow from the Bank as of June 30, 2024, was \$2,404,446,661 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The liquidity policy of the Association is to manage cash balances, to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued during 2024. As borrower payments are received, they are applied to the Association's note payable to the Bank.

Capital Resources

The Association's capital position increased by \$24,237,794 at June 30, 2024, compared to December 31, 2023. The Association's debt as a percentage of members' equity was 7.11:1 as of June 30, 2024, compared to 7.63:1 as of December 31, 2023.

Farm Credit Administration regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of June 30, 2024, the Association exceeded all regulatory capital requirements.

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 and for critical accounting policies.

Relationship With the Farm Credit Bank of Texas

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

The annual and quarterly stockholder reports of the Bank 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 for the Bank are also available on its website at www.farmcreditbank.com.

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Texas Farm Credit Services, 545 South Hwy. 77, Robstown, Texas, 78380 or calling (361) 387-8563. The annual and quarterly stockholder reports for the Association are also available on its website at www.texasfarmcredit.com. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing lpepper@texasfarmcredit.com.

TEXAS FARM CREDIT SERVICES

CONSOLIDATED BALANCE SHEET

	June 30, 2024	December 31, 2023
	(unaudited)	
<u>ASSETS</u>		
Cash	\$ 21,660	\$ 22,851
Investments	215,242	301,055
Loans	2,402,609,252	2,365,070,169
Less: allowance for credit losses on loans	3,135,815	2,409,922
Net loans	2,399,473,437	2,362,660,247
Accrued interest receivable	29,178,432	22,247,759
Investment in and receivable from the Farm		
Credit Bank of Texas:		
Capital stock	42,368,753	42,377,213
Other	5,120,720	2,669,822
Deferred taxes, net	189,612	70,130
Premises and equipment, net	18,541,954	18,056,720
Other assets	6,360,542	5,535,444
Total assets	\$ 2,501,470,352	\$ 2,453,941,241
<u>LIABILITIES</u>		
Note payable to the Farm Credit Bank of Texas	\$ 2,170,591,724	\$ 2,120,945,005
Advance conditional payments	559,079	1,231,045
Accrued interest payable	7,074,651	6,557,132
Drafts outstanding	1,056,062	92,357
Patronage distributions payable	-	21,969,124
Other liabilities	13,556,960	18,752,496
Total liabilities	2,192,838,476	2,169,547,159
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	4,027,820	4,623,975
Additional paid-in capital	47,596,495	47,596,495
Allocated retained earnings	52,244,352	52,244,352
Unallocated retained earnings	203,979,829	179,106,436
Accumulated other comprehensive income	783,380	822,824
Total members' equity	308,631,876	284,394,082
Total liabilities and members' equity	\$ 2,501,470,352	\$ 2,453,941,241

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

TEXAS FARM CREDIT SERVICES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2024	2023	2024	2023
<u>INTEREST INCOME</u>				
Loans	\$ 37,734,342	\$ 31,925,929	\$ 75,808,829	\$ 61,867,334
Investments	4,866	6,706	10,426	13,929
Total interest income	<u>37,739,208</u>	<u>31,932,635</u>	<u>75,819,255</u>	<u>61,881,263</u>
<u>INTEREST EXPENSE</u>				
Note payable to the Farm Credit Bank of Texas	21,236,156	17,035,035	41,478,644	32,191,637
Advance conditional payments	1,225	853	12,708	2,853
Total interest expense	<u>21,237,381</u>	<u>17,035,888</u>	<u>41,491,352</u>	<u>32,194,490</u>
Net interest income	<u>16,501,827</u>	<u>14,896,747</u>	<u>34,327,903</u>	<u>29,686,773</u>
(Reversal of) provision for loan losses	<u>(122,874)</u>	<u>(142,707)</u>	<u>725,441</u>	<u>(193,727)</u>
Net interest income after provision for credit losses	<u>16,624,701</u>	<u>15,039,454</u>	<u>33,602,462</u>	<u>29,880,500</u>
<u>NONINTEREST INCOME</u>				
Income from the Farm Credit Bank of Texas:				
Patronage income	2,083,652	4,215,746	4,180,085	8,330,880
Loan fees	1,460,939	741,964	2,456,586	1,513,266
Refunds from Farm Credit System				
Insurance Corporation	685,571	-	685,571	-
Financially related services income	1,151,265	1,409,569	2,496,393	2,654,450
Gain (loss) on sale of premises and equipment, net	235,232	192,761	235,232	218,107
Other noninterest income	74,303	146,238	131,095	381,697
Total noninterest income	<u>5,690,962</u>	<u>6,706,278</u>	<u>10,184,962</u>	<u>13,098,400</u>
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	5,341,961	5,158,639	10,663,029	10,335,711
Directors' expense	118,724	127,109	215,004	305,063
Purchased services	176,937	147,309	438,525	459,546
Travel	525,810	476,206	811,885	803,402
Occupancy and equipment	642,262	632,918	2,250,453	2,136,946
Communications	90,393	127,294	190,234	241,743
Advertising	114,036	78,324	193,643	183,896
Public and member relations	355,103	385,601	710,226	640,761
Supervisory and exam expense	157,581	141,681	472,741	283,362
Insurance fund premiums	522,624	843,716	1,025,976	1,724,046
Merger-implementation and restructuring costs	82,379	-	101,161	-
Other noninterest expense	831,640	724,172	2,024,959	1,591,139
Total noninterest expenses	<u>8,959,450</u>	<u>8,842,969</u>	<u>19,097,836</u>	<u>18,705,615</u>
Income before income taxes	<u>13,356,213</u>	<u>12,902,763</u>	<u>24,689,588</u>	<u>24,273,285</u>
Provision for (benefit from) income taxes	<u>27,929</u>	<u>2,477</u>	<u>(119,482)</u>	<u>3,585</u>
NET INCOME	<u>13,328,284</u>	<u>12,900,286</u>	<u>24,809,070</u>	<u>24,269,700</u>
Other comprehensive income:				
Change in postretirement benefit plans	<u>(19,722)</u>	<u>(19,167)</u>	<u>(39,444)</u>	<u>(38,334)</u>
COMPREHENSIVE INCOME	<u>\$ 13,308,562</u>	<u>\$ 12,881,119</u>	<u>\$ 24,769,626</u>	<u>\$ 24,231,366</u>

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

TEXAS FARM CREDIT SERVICES

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	\$ 4,580,185	\$ 47,596,495	\$ 53,219,859	\$ 156,044,338	\$ 861,603	\$ 262,302,480
Comprehensive income		-	-	24,269,700	(38,334)	24,231,366
Capital stock/participation certificates and allocated retained earnings issued	138,760	-	-	-	-	138,760
Capital stock/participation certificates and allocated retained earnings retired	(135,550)	-	-	-	-	(135,550)
Adjustment due to CECL adoption	-	-	-	(1,786,948)	-	(1,786,948)
Patronage refunds:						
Cash	-	-	-	33,114	-	33,114
Balance at June 30, 2023	<u>\$ 4,583,395</u>	<u>\$ 47,596,495</u>	<u>\$ 53,219,859</u>	<u>\$ 178,560,204</u>	<u>\$ 823,269</u>	<u>\$ 284,783,222</u>
Balance at December 31, 2023	\$ 4,623,975	\$ 47,596,495	\$ 52,244,352	\$ 179,106,436	\$ 822,824	\$ 284,394,082
Comprehensive income	-	-	-	24,809,070	(39,444)	24,769,626
Capital stock/participation certificates and allocated retained earnings issued	159,655	-	-	-	-	159,655
Capital stock/participation certificates and allocated retained earnings retired	(755,810)	-	-	-	-	(755,810)
Patronage refunds:						
Cash	-	-	-	64,323	-	64,323
Balance at June 30, 2024	<u>\$ 4,027,820</u>	<u>\$ 47,596,495</u>	<u>\$ 52,244,352</u>	<u>\$ 203,979,829</u>	<u>\$ 783,380</u>	<u>\$ 308,631,876</u>

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

TEXAS FARM CREDIT SERVICES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Texas Farm Credit Services (Agricultural Credit Association), referred to as 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 purposes. The Association serves the counties of Anderson, Angelina, Aransas, Atascosa, Austin, Bandera, Bee, Bexar, Bowie, Brooks, Cameron, Camp, Cass, Chambers, Cherokee, Collin, Cooke, Dallas, Delta, Denton, DeWitt, Dimmit, Duval, Edwards, Fannin, Fayette, Franklin, Freestone, Frio, Goliad, Gonzales, Grayson, Gregg, Guadalupe, Hardin, Harrison, Henderson, Hidalgo, Hopkins, Houston, Hunt, Jasper, Jefferson, Jim Hogg, Jim Wells, Karnes, Kaufman, Kenedy, Kerr, Kinney, Kleberg, Lamar, LaSalle, Lavaca, Leon, Liberty, Limestone, Live Oak, Marion, Maverick, McMullen, Medina, Montgomery, Morris, Nacogdoches, Newton, Nueces, Orange, Panola, Polk, Rains, Real, Red River, Rockwall, Rusk, Sabine, San Augustine, San Jacinto, San Patricio, Shelby, Smith, Starr, Titus, Trinity, Tyler, Upshur, Uvalde, Val Verde, Van Zandt, Walker, Waller, Washington, Webb, Willacy, Wilson, Wood, Zapata, and Zavala, parts of Refugio, and the lower half of Lee in the State of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

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 and conform with GAAP, except for the exclusion 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. These interim financial statements 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. 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.

On May 7, 2024, a Joint Board of Directors Resolution was approved by the Association and Heritage Land Bank, ACA, boards’ of directors. This Resolution documented both boards’ approval of merging the two associations. On May 29, 2024, the Farm Credit Bank of Texas approved the associations’ proposed merger. The Farm Credit Administration (FCA) is now reviewing the merger application package, with subsequent stockholder votes planned if approved. As of March 31, 2024, Heritage Land Bank, ACA, had approximately \$739 million of total assets and serves customers in 16 North and East Texas counties. Both Texas Farm Credit Services and Heritage Land Bank, ACA, receive wholesale funding from the Farm Credit Bank of Texas.

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.

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 Association is currently assessing the potential impact of this standard on its disclosures.

NOTE 2 — INVESTMENTS:

The Association holds Federal Agricultural Mortgage Corporation (Farmer Mac) agricultural mortgage-backed securities. These securities were agricultural loans previously covered under a Long-Term Standby Commitment to Purchase agreement with Farmer Mac and were subsequently securitized. No gain or loss was recognized in the financial statements upon completion of the securitization. Terms of the agreement call for a guarantee fee of 20 basis points to 50 basis points to be paid to Farmer Mac, and for the Association to receive a 30 basis point fee for servicing the underlying loans.

The following is a summary of Farmer Mac agricultural mortgage-backed securities:

	June 30, 2024				
	Amortized Cost	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life
Agricultural mortgage-backed securities	\$ 215,242	\$ (7,723)	\$ 207,519	6.00%	3.48 Years

	December 31, 2023				
	Amortized Cost	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life
Agricultural mortgage-backed securities	\$ 301,055	\$ (9,084)	\$ 291,971	6.12%	3.82 Years

NOTE 3 — LOANS AND ALLOWANCE FOR CREDIT LOSSES ON LOANS:

A summary of the Association's loan portfolio follows:

Loan Type	June 30, 2024	December 31, 2023
	Amount	Amount
Production agriculture:		
Real estate mortgage	\$ 1,862,595,710	\$ 1,841,308,216
Production and intermediate-term	348,156,482	320,588,672
Agribusiness:		
Processing and marketing	85,093,043	91,855,671
Farm-related business	43,216,577	44,182,696
Loans to cooperatives	21,020,418	19,300,676
Communication	15,726,510	20,490,514
Water and waste-water	12,872,953	14,902,097
Energy	6,450,057	5,106,807
Agricultural export finance	5,808,942	5,587,816
Rural residential real estate	967,722	1,002,365
Mission-related investments	700,838	744,639
Total	\$ 2,402,609,252	\$ 2,365,070,169

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 June 30, 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	\$ 61,891,845	\$ 80,151,564	\$ 7,645,786	\$ -	\$ 69,537,631	\$ 80,151,564
Production and intermediate-term	25,155,921	39,382,895	-	-	25,155,921	39,382,895
Agribusiness	94,423,096	9,813,330	4,181,435	-	98,604,531	9,813,330
Communication	15,726,510	-	-	-	15,726,510	-
Water and waste-water	12,872,953	-	-	-	12,872,953	-
Energy	6,450,057	-	-	-	6,450,057	-
Agricultural export finance	5,808,942	-	-	-	5,808,942	-
Total	\$ 222,329,324	\$ 129,347,789	\$ 11,827,221	\$ -	\$ 234,156,545	\$ 129,347,789

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. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were \$559,079 and \$1,231,045 at June 30, 2024, and December 31, 2023, respectively.

Credit Quality

Credit risk arises from the potential inability of an obligor to meet its payment obligation and exists in 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 enhanced focus on 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, associations that make 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 percent of the original appraised value of the property taken as security or up to 97 percent 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. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full and/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.

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 that if not cured jeopardizes repayment;
- 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 presents credit quality indicators by loan type and the related principal balance as of June 30, 2024:

June 30, 2024	Term Loans Amortized Cost by Origination Year						Revolving Loans Amortized Cost	Revolving Loans Converted to Term Loans Amortized Cost	Total
	2024	2023	2022	2021	2020	Prior	Basis	Basis	
Real estate mortgage									
Acceptable	\$ 139,707,757	\$ 218,971,558	\$ 351,769,022	\$ 538,522,988	\$ 266,968,410	\$ 330,889,114	\$ 347,311	\$ -	\$ 1,847,176,160
OAEM	694,829	-	2,156,371	805,568	-	2,232,248	-	-	5,889,016
Substandard/Doubtful	-	538,352	-	3,015,819	2,585,446	3,390,917	-	-	9,530,534
	<u>140,402,586</u>	<u>219,509,910</u>	<u>353,925,393</u>	<u>542,344,375</u>	<u>269,553,856</u>	<u>336,512,279</u>	<u>347,311</u>	<u>-</u>	<u>1,862,595,710</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Production and intermediate-term									
Acceptable	23,017,563	100,269,530	14,364,947	10,451,368	14,827,374	4,037,496	146,473,527	-	313,441,805
OAEM	7,493,555	4,976,611	764,118	167,520	-	68,999	7,026,374	-	20,497,177
Substandard/Doubtful	4,278,072	9,621,678	-	91,357	-	226,393	-	-	14,217,500
	<u>34,789,190</u>	<u>114,867,819</u>	<u>15,129,065</u>	<u>10,710,245</u>	<u>14,827,374</u>	<u>4,332,888</u>	<u>153,499,901</u>	<u>-</u>	<u>348,156,482</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Agribusiness									
Acceptable	289,941	22,960,474	41,373,993	11,946,423	10,386,044	5,536,303	41,176,625	-	133,669,803
OAEM	757,145	-	2,634,757	-	-	-	1,565,644	-	4,957,546
Substandard/Doubtful	-	-	-	-	4,098,884	6,603,805	-	-	10,702,689
	<u>1,047,086</u>	<u>22,960,474</u>	<u>44,008,750</u>	<u>11,946,423</u>	<u>14,484,928</u>	<u>12,140,108</u>	<u>42,742,269</u>	<u>-</u>	<u>149,330,038</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Communications									
Acceptable	-	9,532,012	-	-	5,603,533	-	239,965	-	15,375,510
OAEM	351,000	-	-	-	-	-	-	-	351,000
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>351,000</u>	<u>9,532,012</u>	<u>-</u>	<u>-</u>	<u>5,603,533</u>	<u>-</u>	<u>239,965</u>	<u>-</u>	<u>15,726,510</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Energy									
Acceptable	1,434,430	3,496,257	-	-	-	1,264,530	-	-	6,195,217
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	254,840	-	-	254,840
	<u>1,434,430</u>	<u>3,496,257</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,519,370</u>	<u>-</u>	<u>-</u>	<u>6,450,057</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Water/waste disposal									
Acceptable	-	7,439,003	2,827,338	2,485,073	-	-	121,539	-	12,872,953
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>-</u>	<u>7,439,003</u>	<u>2,827,338</u>	<u>2,485,073</u>	<u>-</u>	<u>-</u>	<u>121,539</u>	<u>-</u>	<u>12,872,953</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Rural residential real estate									
Acceptable	-	-	-	-	83,020	490,260	-	-	573,280
OAEM	-	-	-	-	-	322,267	-	-	322,267
Substandard/Doubtful	-	-	-	-	-	72,175	-	-	72,175
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>83,020</u>	<u>884,702</u>	<u>-</u>	<u>-</u>	<u>967,722</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
International									
Acceptable	-	5,588,279	-	-	-	-	220,663	-	5,808,942
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>-</u>	<u>5,588,279</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>220,663</u>	<u>-</u>	<u>5,808,942</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Mission-related									
Acceptable	-	-	-	-	-	700,838	-	-	700,838
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>700,838</u>	<u>-</u>	<u>-</u>	<u>700,838</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Total Loans									
Acceptable	\$ 164,449,691	\$ 368,257,113	\$ 410,335,300	\$ 563,405,852	\$ 297,868,381	\$ 342,918,541	\$ 188,579,630	\$ -	\$ 2,335,814,508
OAEM	9,296,529	4,976,611	5,555,246	973,088	-	2,623,514	8,592,018	-	32,017,006
Substandard/Doubtful	4,278,072	10,160,030	-	3,107,176	6,684,330	10,548,130	-	-	34,777,738
	<u>\$ 178,024,292</u>	<u>\$ 383,393,754</u>	<u>\$ 415,890,546</u>	<u>\$ 567,486,116</u>	<u>\$ 304,552,711</u>	<u>\$ 356,090,185</u>	<u>\$ 197,171,648</u>	<u>\$ -</u>	<u>\$ 2,402,609,252</u>
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

The following table presents credit quality indicators by loan type and the related principal balance as of December 31, 2023:

December 31, 2023	Term Loans Amortized Cost by Origination Year						Revolving Loans	Revolving Loans	Total
	2023	2022	2021	2020	2019	Prior	Amortized Cost Basis	Converted to Term Loans Amortized Cost Basis	
Real estate mortgage									
Acceptable	\$ 250,719,930	\$ 377,761,439	\$ 557,875,226	\$ 284,123,745	\$ 95,059,256	\$ 265,226,995	\$ -	\$ -	\$ 1,830,766,591
OAEM	-	-	766,062	846,430	1,468,817	1,471,092	-	-	4,552,401
Substandard/Doubtful	250,000	-	2,399,262	660,308	254,468	2,425,186	-	-	5,989,224
	<u>250,969,930</u>	<u>377,761,439</u>	<u>561,040,550</u>	<u>285,630,483</u>	<u>96,782,541</u>	<u>269,123,273</u>	<u>-</u>	<u>-</u>	<u>1,841,308,216</u>
Gross charge-offs for the year ended December 31	-	-	-	-	-	-	-	-	-
Production and intermediate-term									
Acceptable	86,674,324	25,937,430	12,419,407	17,070,699	923,544	3,639,457	159,214,977	-	305,879,838
OAEM	4,446,438	10,259	-	-	75,025	-	673,350	-	5,205,072
Substandard/Doubtful	8,872,056	218,572	128,498	-	211,583	73,053	-	-	9,503,762
	<u>99,992,818</u>	<u>26,166,261</u>	<u>12,547,905</u>	<u>17,070,699</u>	<u>1,210,152</u>	<u>3,712,510</u>	<u>159,888,327</u>	<u>-</u>	<u>320,588,672</u>
Gross charge-offs for the year ended December 31	-	-	-	-	-	-	-	-	-
Agribusiness									
Acceptable	22,855,701	43,757,260	13,076,892	11,398,659	4,761,367	531,875	43,074,590	-	139,456,344
OAEM	-	1,866,265	-	-	-	-	1,867,894	-	3,734,159
Substandard/Doubtful	-	-	-	4,533,639	-	7,614,901	-	-	12,148,540
	<u>22,855,701</u>	<u>45,623,525</u>	<u>13,076,892</u>	<u>15,932,298</u>	<u>4,761,367</u>	<u>8,146,776</u>	<u>44,942,484</u>	<u>-</u>	<u>155,339,043</u>
Gross charge-offs for the year ended December 31	-	-	-	-	-	-	-	-	-
Communications									
Acceptable	9,095,375	-	-	10,178,850	-	-	136,850	-	19,411,075
OAEM	-	-	-	1,079,439	-	-	-	-	1,079,439
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>9,095,375</u>	<u>-</u>	<u>-</u>	<u>11,258,289</u>	<u>-</u>	<u>-</u>	<u>136,850</u>	<u>-</u>	<u>20,490,514</u>
Gross charge-offs for the year ended December 31	-	-	-	-	-	-	-	-	-
Energy									
Acceptable	3,495,734	-	-	-	-	1,315,321	-	-	4,811,055
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	295,752	-	-	295,752
	<u>3,495,734</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,611,073</u>	<u>-</u>	<u>-</u>	<u>5,106,807</u>
Gross charge-offs for the year ended December 31	-	-	-	-	-	-	-	-	-
Water and waste disposal									
Acceptable	9,377,548	2,905,440	2,497,062	-	-	-	122,047	-	14,902,097
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>9,377,548</u>	<u>2,905,440</u>	<u>2,497,062</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>122,047</u>	<u>-</u>	<u>14,902,097</u>
Gross charge-offs for the year ended December 31	-	-	-	-	-	-	-	-	-
Rural residential real estate									
Acceptable	-	-	-	85,140	-	504,438	-	-	589,578
OAEM	-	-	-	-	-	334,912	-	-	334,912
Substandard/Doubtful	-	-	-	-	-	77,875	-	-	77,875
	<u>-</u>	<u>-</u>	<u>-</u>	<u>85,140</u>	<u>-</u>	<u>917,225</u>	<u>-</u>	<u>-</u>	<u>1,002,365</u>
Gross charge-offs for the year ended December 31	-	-	-	-	-	-	-	-	-
International									
Acceptable	5,587,816	-	-	-	-	-	-	-	5,587,816
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>5,587,816</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,587,816</u>
Gross charge-offs for the year ended December 31	-	-	-	-	-	-	-	-	-
Mission-related									
Acceptable	-	-	-	-	-	744,639	-	-	744,639
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>744,639</u>	<u>-</u>	<u>-</u>	<u>744,639</u>
Gross charge-offs for the year ended December 31	-	-	-	-	-	-	-	-	-
Total Loans									
Acceptable	\$ 387,806,428	\$ 450,361,569	\$ 585,868,587	\$ 322,857,093	\$ 100,744,167	\$ 271,962,725	\$ 202,548,464	\$ -	\$ 2,322,149,033
OAEM	4,446,438	1,876,524	766,062	1,925,869	1,543,842	1,806,004	2,541,244	-	14,905,983
Substandard/Doubtful	9,122,056	218,572	2,527,760	5,193,947	466,051	10,486,767	-	-	28,015,153
	<u>\$ 401,374,922</u>	<u>\$ 452,456,665</u>	<u>\$ 589,162,409</u>	<u>\$ 329,976,909</u>	<u>\$ 102,754,059</u>	<u>\$ 284,255,496</u>	<u>\$ 205,089,708</u>	<u>\$ -</u>	<u>\$ 2,365,070,169</u>
Total Gross charge-offs for the year ended December 31, 2023	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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 June 30, 2024, and December 31, 2023:

	<u>June 30, 2024</u>	<u>December 31, 2023</u>
Real estate mortgage		
Acceptable	98.8 %	99.3 %
OAEM	0.6 %	0.4 %
Substandard/doubtful	0.6 %	0.3 %
	<u>100.0 %</u>	<u>100.0 %</u>
Production and intermediate term		
Acceptable	90.0 %	95.4 %
OAEM	5.9 %	1.6 %
Substandard/doubtful	4.1 %	3.0 %
	<u>100.0 %</u>	<u>100.0 %</u>
Loans to cooperatives		
Acceptable	84.0 %	100.0 %
OAEM	16.0 %	- %
Substandard/doubtful	- %	- %
	<u>100.0 %</u>	<u>100.0 %</u>
Processing and marketing		
Acceptable	94.7 %	95.9 %
OAEM	5.3 %	4.1 %
Substandard/doubtful	- %	- %
	<u>100.0 %</u>	<u>100.0 %</u>
Farm-related business		
Acceptable	74.2 %	72.5 %
OAEM	1.0 %	- %
Substandard/doubtful	24.8 %	27.5 %
	<u>100.0 %</u>	<u>100.0 %</u>
Communication		
Acceptable	97.8 %	94.7 %
OAEM	2.2 %	5.3 %
Substandard/doubtful	- %	- %
	<u>100.0 %</u>	<u>100.0 %</u>
Energy		
Acceptable	96.0 %	94.2 %
OAEM	- %	- %
Substandard/doubtful	4.0 %	5.8 %
	<u>100.0 %</u>	<u>100.0 %</u>
Water and waste-water		
Acceptable	100.0 %	100.0 %
OAEM	- %	- %
Substandard/doubtful	- %	- %
	<u>100.0 %</u>	<u>100.0 %</u>
Rural residential real estate		
Acceptable	59.2 %	58.8 %
OAEM	33.3 %	33.4 %
Substandard/doubtful	7.5 %	7.8 %
	<u>100.0 %</u>	<u>100.0 %</u>
Agricultural export finance		
Acceptable	100.0 %	100.0 %
OAEM	- %	- %
Substandard/doubtful	- %	- %
	<u>100.0 %</u>	<u>100.0 %</u>
Mission-related investments		
Acceptable	100.0 %	100.0 %
OAEM	- %	- %
Substandard/doubtful	- %	- %
	<u>100.0 %</u>	<u>100.0 %</u>
Total Loans		
Acceptable	96.8 %	98.1 %
OAEM	1.7 %	0.7 %
Substandard/doubtful	1.5 %	1.2 %
	<u>100.0 %</u>	<u>100.0 %</u>

Accrued interest receivable on loans of \$29,174,535 and \$22,243,153 at June 30, 2024, and December 31, 2023, respectively, have been excluded from the amortized cost of loans and reported separately in the Consolidated Balance Sheet. The Association wrote off accrued interest receivable of \$11,092 and \$272,025 the six months ended June 30, 2024, and 2023.

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

	<u>June 30, 2024</u>	<u>December 31, 2023</u>
Nonaccrual loans:		
Real estate mortgage	\$ 1,980,798	\$ 2,445,690
Production and intermediate-term	70,763	227,141
Agribusiness	10,702,689	12,148,540
Energy	254,841	295,752
Total nonaccrual loans	<u>\$ 13,009,091</u>	<u>\$ 15,117,123</u>
Accruing loans 90 days or more past due:		
Production and intermediate-term	<u>5</u>	<u>5</u>
Total accruing loans 90 days or more past due	<u>5</u>	<u>5</u>
Other property owned	-	-
Total nonperforming assets	<u><u>\$ 13,009,096</u></u>	<u><u>\$ 15,117,128</u></u>
Nonaccrual loans as a percentage of total loans	0.54%	0.64%
Nonperforming assets as a percentage of total loans and other property owned	0.54%	0.64%
Nonperforming assets as a percentage of capital	4.22%	5.32%

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 loans during the period:

	<u>June 30, 2024</u>			<u>Interest Income Recognized</u>	
	<u>Amortized Cost with Allowance</u>	<u>Amortized Cost without Allowance</u>	<u>Total</u>	<u>For the Three Months Ended June 30, 2024</u>	<u>For the Six Months Ended June 30, 2024</u>
Nonaccrual loans:					
Real estate mortgage	\$ -	\$ 1,980,798	\$ 1,980,798	\$ 1,445	\$ 480,029
Production and intermediate-term	-	70,763	70,763	-	1,204,894
Agribusiness	-	10,702,689	10,702,689	-	3,232
Energy	254,841	-	254,841	-	-
Total nonaccrual loans	<u>\$ 254,841</u>	<u>\$ 12,754,250</u>	<u>\$ 13,009,091</u>	<u>\$ 1,445</u>	<u>\$ 1,688,155</u>
	<u>June 30, 2023</u>			<u>Interest Income Recognized</u>	
	<u>Amortized Cost with Allowance</u>	<u>Amortized Cost without Allowance</u>	<u>Total</u>	<u>For the Three Months Ended June 30, 2023</u>	<u>For the Six Months Ended June 30, 2023</u>
Nonaccrual loans:					
Real estate mortgage	\$ -	\$ 2,279,069	\$ 2,279,069	\$ 13,960	\$ 15,418
Production and intermediate-term	-	928,705	928,705	38,392	38,392
Agribusiness	12,434,611	5,113,097	17,547,708	-	-
Energy	371,141	-	371,141	-	-
Total nonaccrual loans	<u>\$ 12,805,752</u>	<u>\$ 8,320,871</u>	<u>\$ 21,126,623</u>	<u>\$ 52,352</u>	<u>\$ 53,810</u>

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

<u>June 30, 2024</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total Past Due</u>	<u>Not Past Due or Less Than 30 Days Past Due</u>	<u>Total Loans</u>	<u>Recorded Investment > 90 Days and Accruing</u>
Real estate mortgage	\$ 6,240,060	\$ -	\$ 6,240,060	\$ 1,856,355,650	\$ 1,862,595,710	\$ -
Production and intermediate term	444,480	3,199	447,679	347,708,803	348,156,482	5
Processing and marketing	-	-	-	85,093,043	85,093,043	-
Farm-related business	-	-	-	43,216,577	43,216,577	-
Loans to cooperatives	-	-	-	21,020,418	21,020,418	-
Communication	-	-	-	15,726,510	15,726,510	-
Water and waste-water	-	-	-	12,872,953	12,872,953	-
Energy	-	-	-	6,450,057	6,450,057	-
Agricultural export finance	-	-	-	5,808,942	5,808,942	-
Rural residential real estate	86,396	-	86,396	881,326	967,722	-
Mission-related investments	-	-	-	700,838	700,838	-
Total	\$ 6,770,936	\$ 3,199	\$ 6,774,135	\$ 2,395,835,117	\$ 2,402,609,252	\$ 5

<u>December 31, 2023</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total Past Due</u>	<u>Not Past Due or Less Than 30 Days Past Due</u>	<u>Total Loans</u>	<u>Recorded Investment >90 Days and Accruing</u>
Real estate mortgage	\$ 6,029,423	\$ -	\$ 6,029,423	\$ 1,835,278,793	\$ 1,841,308,216	\$ -
Production and intermediate term	82,713	227,146	309,859	320,278,813	320,588,672	5
Processing and marketing	-	-	-	91,855,671	91,855,671	-
Farm-related business	-	-	-	44,182,696	44,182,696	-
Loans to cooperatives	-	-	-	19,300,676	19,300,676	-
Communication	-	-	-	20,490,514	20,490,514	-
Water and waste-water	-	-	-	14,902,097	14,902,097	-
Agricultural export finance	-	-	-	5,587,816	5,587,816	-
Energy	-	-	-	5,106,807	5,106,807	-
Rural residential real estate	93,892	-	93,892	908,473	1,002,365	-
Mission-related investments	-	-	-	744,639	744,639	-
Total	\$ 6,206,028	\$ 227,146	\$ 6,433,174	\$ 2,358,636,995	\$ 2,365,070,169	\$ 5

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.

Loan Modifications to Borrowers Experiencing Financial Difficulties

There were no loan modifications granted to borrowers experiencing financial difficulty at June 30, 2024. There were no loans to borrowers experiencing financial difficulties that defaulted during the three and six months ended June 30, 2024, and received a modification in the twelve months before default.

There were no additional commitments to lend to borrowers experiencing financial difficulty whose loans have been modified during the three months ended June 30, 2024, and during the year ended December 2023.

For the three and six months ended June 30, 2023, the following table shows the amortized cost basis at the end of the respective reporting period for loan modifications granted to borrowers experiencing financial difficulty, disaggregated by loan type and type of modification granted.

	<u>Term Extension</u>
Production and intermediate-term	\$ 288,235

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty as of the three and six months ended June 30, 2023 was \$5,151. There was no financial effect of the modification made to borrowers experiencing financial difficulty during 2023.

The following table sets forth an aging analysis of loans to borrowers experiencing financial difficulty that were modified on or after January 1, 2023, the date of adoption of CECL, through June 30, 2023:

	Payment Status of Loans Modified in the Past 12 Months		
	Current	30-89 Days Past Due	90 Days or More Past Due
Production and intermediate-term	\$ 288,835	\$ -	\$ -

Allowance for Credit Losses

The credit risk rating methodology is a key component of the Association's allowance for credit losses evaluation and is generally incorporated into the Association's loan underwriting standards. In addition, borrower and commodity concentration lending and leasing limits have been established by the Association 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 board of directors have established more restrictive lending limits.

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

	Real estate mortgage	Production and intermediate-term	Agribusiness	Communications	Energy	Water and waste water	Rural Residential Real Estate	International	Mission-related investments	Total
Allowance for credit losses on loans:										
Balance at March 31, 2024	\$ 1,993,150	\$ 915,836	\$ 161,778	\$ 21,373	\$ 109,635	\$ 14,390	\$ 1,039	\$ 6,179	\$ 792	\$ 3,224,172
Provision for credit losses/(Credit loss reversal)	22,379	(107,004)	(460)	(4,364)	1,603	(543)	3	66	(37)	(88,357)
Balance at June 30, 2024	2,015,529	808,832	161,318	17,009	111,238	13,847	1,042	6,245	755	3,135,815
Allowance for credit losses on unfunded commitments:										
Balance at March 31, 2024	1,261	115,659	83,012	533	-	238	-	2,089	-	202,792
Provision for unfunded commitments	2,348	(24,747)	(13,222)	1,418	-	(26)	-	(288)	-	(34,517)
Balance at June 30, 2024	3,609	90,912	69,790	1,951	-	212	-	1,801	-	168,275
Total allowance for credit losses	\$ 2,019,138	\$ 899,744	\$ 231,108	\$ 18,960	\$ 111,238	\$ 14,059	\$ 1,042	\$ 8,046	\$ 755	\$ 3,304,090

	Real estate mortgage	Production and intermediate-term	Agribusiness	Communications	Energy	Water and waste water	Rural Residential Real Estate	International	Mission-related investments	Total
Allowance for credit losses on loans:										
Balance at December 31, 2023	\$ 1,816,277	\$ 289,199	\$ 153,176	\$ 20,152	\$ 109,309	\$ 14,606	\$ 985	\$ 5,486	\$ 732	\$ 2,409,922
Recoveries	-	41,428	-	-	-	-	-	-	-	41,428
Provision for credit losses/(Credit loss reversal)	199,252	478,205	8,142	(3,143)	1,929	(759)	57	759	23	684,465
Balance at June 30, 2024	2,015,529	808,832	161,318	17,009	111,238	13,847	1,042	6,245	755	3,135,815
Allowance for credit losses on unfunded commitments:										
Balance at December 31, 2023	723	97,550	23,745	718	-	112	-	4,451	-	127,299
Provision for unfunded commitments	2,886	(6,638)	46,045	1,233	-	100	-	(2,650)	-	40,976
Balance at June 30, 2024	3,609	90,912	69,790	1,951	-	212	-	1,801	-	168,275
Total allowance for credit losses	\$ 2,019,138	\$ 899,744	\$ 231,108	\$ 18,960	\$ 111,238	\$ 14,059	\$ 1,042	\$ 8,046	\$ 755	\$ 3,304,090

	Real estate mortgage	Production and intermediate-term	Agribusiness	Communications	Energy	Water and waste water	Rural Residential Real Estate	International	Mission-related investments	Total
Allowance for credit losses on loans:										
Balance at March 31, 2023	\$ 3,410,097	\$ 334,691	\$ 865,765	\$ 39,820	\$ 114,315	\$ 13,477	\$ 1,992	\$ 11,357	\$ 1,527	\$ 4,793,041
Provision for loan losses (Credit loss reversal)	(1,469,224)	3,919	1,378,635	(17,340)	(4,450)	(4,595)	(887)	(4,673)	(719)	(119,334)
Balance at June 30, 2023	1,940,873	338,610	2,244,400	22,480	109,865	8,882	1,105	6,684	808	4,673,707
Allowance for credit losses on unfunded commitments:										
Balance at March 31, 2023	64,815	52,214	-	-	-	-	-	-	-	117,029
Provision for unfunded commitments	(7,657)	(15,716)	-	-	-	-	-	-	-	(23,373)
Balance at June 30, 2023	57,158	36,498	-	-	-	-	-	-	-	93,656
Total allowance for credit losses	\$ 1,998,031	\$ 375,108	\$ 2,244,400	\$ 22,480	\$ 109,865	\$ 8,882	\$ 1,105	\$ 6,684	\$ 808	\$ 4,767,363

	Real estate mortgage	Production and intermediate-term	Agribusiness	Communications	Energy	Water and waste water	Rural Residential Real Estate	International	Mission-related investments	Total
Allowance for credit losses on loans:										
Balance at December 31, 2022	\$ 1,579,691	\$ 628,543	\$ 712,761	\$ 14,214	\$ 105,928	\$ 6,166	\$ 935	\$ 3,024	\$ 700	\$ 3,051,962
Cumulative effect of a change in accounting principle	2,027,349	(291,909)	-	-	-	-	-	-	-	1,735,440
Balance at January 1, 2023	3,607,040	336,634	712,761	14,214	105,928	6,166	935	3,024	700	4,787,402
Provision for loan losses (Credit loss reversal)	(1,666,167)	1,976	1,531,639	8,266	3,937	2,716	170	3,660	108	(113,695)
Balance at June 30, 2023	1,940,873	338,610	2,244,400	22,480	109,865	8,882	1,105	6,684	808	4,673,707
Allowance for credit losses on unfunded commitments:										
Balance at December 31, 2022	53,032	150,360	-	-	-	-	-	-	-	203,392
Cumulative effect of a change in accounting principle	65,109	(94,813)	-	-	-	-	-	-	-	(29,704)
Balance at January 1, 2023	118,141	55,547	-	-	-	-	-	-	-	173,688
Provision for unfunded commitments	(60,983)	(19,049)	-	-	-	-	-	-	-	(80,032)
Balance at June 30, 2023	57,158	36,498	-	-	-	-	-	-	-	93,656
Total allowance for credit losses	\$ 1,998,031	\$ 375,108	\$ 2,244,400	\$ 22,480	\$ 109,865	\$ 8,882	\$ 1,105	\$ 6,684	\$ 808	\$ 4,767,363

The allowance for credit losses increased \$725,893 to \$3,135,815 at June 30, 2024, as compared to \$2,409,922 at December 31, 2023. This is due to a modest increase in loan volume and risk rating downgrades of a few loans.

NOTE 4 —LEASES:

The components of lease expense were as follows:

	Classification	For the Three Months Ended		For the Six Months Ended	
		June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
Operating lease cost	Right-of-use asset	\$ 116,570	\$ 70,427	\$ 257,674	\$ 140,040
Short-term lease cost		5,400	6,650	9,000	42,050
Finance lease cost:					
Amortization of right-of-use assets		(59,027)	(14,342)	(142,589)	(27,942)
Net lease cost		\$ 62,943	\$ 62,735	\$ 124,085	\$ 154,148

Other information related to leases was as follows:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	\$ 57,542	\$ 56,085	\$ 115,084	\$ 112,098
Right-of-use assets obtained in exchange for lease obligations:				
Operating leases	\$ 116,570	\$ 70,427	\$ 257,674	\$ 140,040

Lease term and discount rate are as follows:

	June 30, 2024	December 31, 2023
Weighted average remaining lease term in years		
Operating leases	6.58	6.90
Weighted average discount rate		
Operating leases	5.82%	5.53%

Future minimum lease payments under non-cancellable leases as of June 30, 2024, were as follows:

	Operating Leases
2024	\$ 77,657
2025	186,381
2026	117,646
2027	72,003
2028	96,400
Thereafter	316,498
Total lease payments	\$ 866,585

NOTE 5 — CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the Association's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, 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 of directors 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 the Association'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 June 30, 2024
Common equity tier 1 ratio	7.00%	12.32%
Tier 1 capital ratio	8.50%	12.32%
Total capital ratio	10.50%	12.49%
Permanent capital ratio	7.00%	12.34%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.00%	10.37%
UREE leverage ratio	1.50%	8.06%

The components of the Association's regulatory capital ratios, based on 90 day average balances, as of June 30, 2024:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	\$ 129,978,760	\$ 129,978,760	\$ 129,978,760	\$ 129,978,760
Paid-in capital	47,596,495	47,596,495	47,596,495	47,596,495
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	4,355,384	4,355,384	4,355,384	4,355,384
Allocated equities:				
Allocated equities held ≥ 7	52,244,352	52,244,352	52,244,352	52,244,352
Nonqualified allocated equities not subject to retirement	64,937,342	64,937,342	64,937,342	64,937,342
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	3,420,138	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(42,372,112)	(42,372,112)	(42,372,112)	(42,372,112)
Other regulatory required deductions	(2,636,617)	(2,636,617)	(2,636,617)	(2,636,617)
	\$ 254,103,604	\$ 254,103,604	\$ 257,523,742	\$ 254,103,604
Denominator:				
Risk-adjusted assets excluding allowance	\$ 2,107,609,527	\$ 2,107,609,527	\$ 2,107,609,527	\$ 2,107,609,527
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(45,008,729)	(45,008,729)	(45,008,729)	(45,008,729)
Allowance for loan losses	-	-	-	(3,219,263)
	\$ 2,062,600,798	\$ 2,062,600,798	\$ 2,062,600,798	\$ 2,059,381,535
Calculated Ratio	12.32%	12.32%	12.49%	12.34%

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	\$ 129,978,760	\$ 129,978,760
Paid-in capital	47,596,495	47,596,495
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	4,355,384	-
Allocated equities:		
Allocated equities held ≥ 7	52,244,352	-
Nonqualified allocated equities not subject to retirement	64,937,342	64,937,342
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(42,372,112)	(42,372,112)
Other regulatory required deductions	(2,636,617)	(2,636,617)
	<u>\$ 254,103,604</u>	<u>\$ 197,503,868</u>
Denominator:		
Total Assets	\$ 2,498,079,822	\$ 2,498,079,822
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(47,184,816)	(47,184,816)
	<u>\$ 2,450,895,006</u>	<u>\$ 2,450,895,006</u>
Calculated Ratio	10.37%	8.06%

	June 30, 2024	December 31, 2023
Capital stock and participation certificates	\$ 4,027,820	\$ 4,623,975
Additional paid-in-capital	47,596,495	47,596,495
Accumulated other comprehensive loss	783,380	822,824
Retained earnings	256,224,181	231,350,788
Total Capital	<u>\$ 308,631,876</u>	<u>\$ 284,394,082</u>

The Association's accumulated other comprehensive income (loss) relates entirely to its non-pension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reclassified into "Salaries and employee benefits" in the Consolidated Statement of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income (loss) for the six months ended June 30:

	2024	2023
Accumulated other comprehensive income at January 1	\$ 822,824	\$ 861,603
Amortization of prior service credit included		
in salaries and employee benefits	(10,858)	(10,858)
Amortization of actuarial gain included		
in salaries and employee benefits	(28,586)	(27,476)
Other comprehensive loss, net of tax	(39,444)	(38,334)
Accumulated other comprehensive income at June 30	<u>\$ 783,380</u>	<u>\$ 823,269</u>

NOTE 6 — INCOME TAXES:

The Association 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. The Association operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage dividends 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 dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the Association 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. The Association has no valuation allowance on its deferred tax assets because management estimates full utilization of these assets.

NOTE 7 — 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 in the 2023 Annual Report to Stockholders for a more complete description.

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

June 30, 2024	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
Assets:			
Loans	\$ -	\$ -	\$ 150,537
December 31, 2023	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
Assets:			
Loans	\$ -	\$ -	\$ 191,449

Uncertainty of Fair Value Measurements

With regard to nonrecurring measurements for impaired loans and other property owned, 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 other property owned 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 14 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 the 2023 Annual Report to Stockholders.

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.

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. As of June 30, 2024, the Association had no other property owned to report.

NOTE 8 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs on certain healthcare benefits to qualifying retired employees for the three and six months ended June 30:

	Other Benefits	
	2024	2023
Three months ended June 30:		
Service cost	\$ 6,305	\$ 6,897
Interest cost	45,612	42,828
Amortization of prior service credits	(5,429)	(5,429)
Amortization of net actuarial gain	(14,293)	(13,737)
Net periodic benefit cost	\$ 32,195	\$ 30,559
	Other Benefits	
	2024	2023
Six months ended June 30:		
Service cost	\$ 12,609	\$ 13,795
Interest cost	91,225	85,655
Amortization of prior service credits	(10,858)	(10,858)
Amortization of net actuarial gain	(28,586)	(27,476)
Net periodic benefit cost	\$ 64,390	\$ 61,116

The Association's liability for the unfunded accumulated obligation for these benefits at June 30, 2024, was \$3,425,465 and is included in other liabilities on the Consolidated Balance Sheet.

The components of net periodic benefit cost are included in the line item "Salaries and employee benefits" in the Consolidated Statement of Comprehensive Income.

The structure of the district's defined benefit pension plan 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 plan as an expense. The Association previously disclosed in its financial statements for the year ended December 31, 2023, that it expected to contribute \$190,269 to the district's defined benefit pension plan in 2024. As of June 30, 2024, \$95,135 of contributions have been expensed. The Association presently does not anticipate additional contributions over \$190,269 will be required in 2024.

NOTE 9 — 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 10 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through August 7, 2024, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of this date.