

AG 
TEXAS
FARM CREDIT SERVICES
Quarterly Report

**The Third Quarter Ended
September 30, 2024**



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Report of Management

The consolidated financial statements of *AgTexas 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 quarter.

The undersigned certify that this quarterly report has been reviewed and 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 their knowledge and belief.

A handwritten signature in black ink, appearing to read "Kayla Robinson".

Kayla Robinson
Chief Executive Officer
October 24, 2024

A handwritten signature in black ink, appearing to read "Reggie Underwood".

Reggie Underwood
Chairman, Board of Directors
October 24, 2024

A handwritten signature in black ink, appearing to read "Jeff Fairchild".

Jeff Fairchild
Chief Financial Officer
October 24, 2024

Management’s Discussion and Analysis

(Dollars in thousands, except as noted)

The third quarter consolidated financial statements of AgTexas Farm Credit Services, including its wholly-owned subsidiaries AgTexas, PCA and AgTexas, FLCA (collectively referred to herein as the “**Association**”), is unaudited, but contains all adjustments necessary for a fair presentation of the interim financial condition and results of operations. The statements are prepared in conformity with generally accepted accounting principles and prevailing practices within the banking industry. In preparing these consolidated statements and meeting its responsibility for reliable financial information, management depends upon the Association’s accounting and internal control systems which have been designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized and recorded.

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

The following commentary explains management’s assessment of the principal aspects of the consolidated financial condition and results of operations of the Association for the three and nine months ended September 30, 2024, and should be read in conjunction with the accompanying *consolidated financial statements* (“**CFS**”) and the *Association’s 2023 Annual Report to Stockholders* (“**2023 Annual Report**”). Management prepared the accompanying CFS under the oversight of the Association’s Audit Committee.

Significant Events.

The Association distributed patronage of approximately \$28.6 million in cash in the first quarter of 2024. This represented the 2023 patronage declared by the Association.

Loan Portfolio.

Total loans outstanding at September 30, 2024, including nonaccrual loans, were \$2,943,226 compared to \$2,920,811 at December 31, 2023, reflecting an increase of 0.8 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.2 percent at September 30, 2024, compared to 0.3 percent at December 31, 2023.

The Association recorded \$97 in recoveries and \$710 in charge-offs for the nine months ended September 30, 2024, and \$1,044 in recoveries and \$1,056 in charge-offs for the same period in 2023. The Association’s allowance for credit losses, which consists of the allowance for loan losses and the reserve for unfunded credit commitments, was 0.4 percent and 0.4 percent of total loans outstanding as of September 30, 2024, and December 31, 2023, respectively.

The financial performance of the Association may be significantly impacted by the quality of loans within the loan portfolio. Internal policies and procedures, as well as third party credit reviews and examinations help to ensure asset quality is properly reflected. Additional detail on credit quality is illustrated in the following table.

	September 30, 2024	September 30, 2023	December 31, 2023
Acceptable	95.8%	95.2%	95.4%
OAEM	2.9%	3.0%	3.2%
Substandard/doubtful	1.3%	1.8%	1.4%
	100.0%	100.0%	100.0%

Changes in the Association’s loan portfolio from December 31, 2023 to September 30, 2024 follow:

Loan Type	September 30, 2024		December 31, 2023	
	Amount	%	Amount	%
Real estate mortgage	\$ 1,451,962	49.5%	\$ 1,459,247	49.9%
Production and intermediate term	1,116,101	37.9%	1,088,091	37.3%
Agribusiness:				
Loans to cooperatives	9,435	0.3%	12,813	0.4%
Processing and marketing	226,279	7.7%	213,775	7.3%
Farm-related business	46,576	1.6%	55,602	1.9%
Communication	24,668	0.8%	19,490	0.7%
Energy	8,362	0.3%	6,905	0.2%
Water and waste water	9,920	0.3%	13,434	0.5%
Rural residential real estate	6,576	0.2%	5,581	0.2%
Agricultural export finance	12,929	0.4%	11,568	0.4%
Lease receivables	6,650	0.2%	8,732	0.3%
Mission-related investments	23,768	0.8%	25,573	0.9%
Total	\$ 2,943,226	100.0%	\$ 2,920,811	100.0%

Management purchases loans and extends credit in accordance with mission-related investment programs, including the Rural America Bond Pilot (“**RAB**”) Program, approved by FCA. This activity allows the Association to provide credit that furthers the System’s mission to serve rural America. These transactions generally involve government guarantees or taxing authority and purchase premiums and discounts.

Effective January 1, 2019, new FCA investment regulations provided authorization for the Association to invest in *Small Business Administration* (“**SBA**”) pool securities. As a part of the conditions of the authorization, the investments are required to be 100% unconditionally guaranteed by the federal government or its agencies. For more information see Note 2 in the “Notes to Unaudited Consolidated Financial Statements.”

Risk Exposure. Nonperforming assets include nonperforming loans and other property owned. Nonperforming loans are comprised of nonaccrual loans and loans past due ≥ 90 days and still accruing interest. The following table illustrates the Association’s components and trends of nonperforming assets.

	September 30, 2024		December 31, 2023	
	Amount	%	Amount	%
Nonaccrual	\$ 5,386	54.1%	\$ 8,170	36.4%
90 days past due and still accruing interest	1,930	19.4%	1,491	6.6%
Other property owned, net	2,642	26.5%	12,828	57.0%
Total	\$ 9,958	100.0%	\$ 22,489	100.0%

Results of Operations. Changes in the Association’s results of operations for the three and nine months ended September 30, 2024 and September 30, 2023 follow:

	For the three months ended		For the nine months ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Interest income	\$ 53,882	\$ 49,129	\$ 157,529	\$ 136,804
Interest expense	(33,458)	(29,414)	(97,455)	(80,324)
(Provision for) reversal of loan losses	(275)	(720)	(28)	(3,036)
Net interest margin	20,149	18,995	60,046	53,444
Noninterest income	7,707	4,393	22,362	22,899
Noninterest expense	(11,199)	(10,875)	(32,956)	(33,902)
Net income	\$ 16,657	\$ 12,513	\$ 49,452	\$ 42,441

Net interest margin (interest income less interest expense) is the principal source of earnings and results from relative volumes of interest-earning assets and interest-bearing liabilities, yields on interest-earning assets, and rates on interest-bearing liabilities. The increase in interest income and expense is due to increased interest rates and loan volume. The decrease to noninterest income in the nine months ended is due to a decrease in fees related to multi-peril insurance offset by increase in sold note patronage. Noninterest expense decrease over the prior period is due to a decrease in purchased services and a decrease in FCSIC insurance premiums.

The effects of changes in average volumes, yields, and rates on interest margin follow:

	For the nine months ended September 30, 2024		For the nine months ended September 30, 2023	
	Average Balance	Interest	Average Balance	Interest
	Total loans and investments	\$ 3,109,913	\$ 157,529	\$ 2,931,061
Interest-bearing liabilities	2,765,399	97,455	2,598,761	80,324
Impact of capital	\$ 344,514		\$ 332,300	
Net interest income		\$ 60,074		\$ 56,480

	2024	2023
	Average Yield	Average Yield
Yield on loans and investments	6.75%	6.24%
Cost of interest-bearing	4.69%	4.13%
Interest rate spread	2.05%	2.11%
Interest rate margin	2.57%	2.58%

	Nine months ended September 30: 2024 vs. 2023		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income	\$ 8,378	\$ 12,347	\$ 20,725
Interest expense	5,166	11,965	17,131
Net interest income	\$ 3,212	\$ 382	\$ 3,594

The Association’s return on average assets was 2.0% and 1.6% for the quarters ended September 30, 2024 and 2023, respectively, and 2.0% and 1.9% for the nine months ended September 30, 2024 and 2023, respectively. The increase in return on average assets for the three months is due to increased patronage income and decreased provision for loan losses. There was no significant change in the return on average assets for the nine months ended September 30, 2024. The Association’s return on average equity was 14.0% and 11.4% for the quarters ended September 30, 2024 and 2023, respectively, and 14.6% and 13.4% for the nine months ended September 30, 2024 and 2023, respectively. The return on average equity for the three months mirrors ROA above. The increase in ROE for the nine months ended is due to a decrease in the provision for loan losses.

Liquidity and Funding Sources. *Interest rate risk (“IRR”)* inherent in the loan portfolio is substantially mitigated through the funding relationship with Farm Credit Bank of Texas (“FCBT”). FCBT manages IRR through direct loan pricing and asset/liability management. The following schedule summarizes the Association’s borrowings:

	September 30, 2024	December 31, 2023
Note payable to FCBT	\$ 2,765,396	\$ 2,757,049
Accrued interest on note payable	10,942	10,691
Total	<u>\$ 2,776,338</u>	<u>\$ 2,767,740</u>

The Association operates under a *general financing agreement (“GFA”)* with FCBT. The current GFA is effective through September 30, 2026. The primary source of liquidity and funding for the Association is through a direct loan from FCBT. The outstanding balance of \$2,765,396 as of September 30, 2024, is recorded as a liability on the Association’s balance sheet. The note carried a weighted average interest rate of 4.79 percent at September 30, 2024. The indebtedness is collateralized by a pledge of substantially all of the Association’s assets to FCBT and is governed by the GFA. The increase in note payable to FCBT since December 31, 2023, is due to the Association’s payment of patronage and increased loan volume. The Association’s own funds, which represent the amount of the Association’s loan portfolio funded by the Association’s equity, was \$359,007 at September 30, 2024. The maximum amount the Association may borrow from FCBT as of September 30, 2024, was \$3,161,785 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, unless sooner terminated by FCBT upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by FCBT, upon giving FCBT 30 calendar days’ prior written notice, or in all other circumstances, upon giving FCBT 120 days’ prior written notice.

Capital Resources. The Association’s members’ equity was \$477,896 and \$431,798 at September 30, 2024 and December 31, 2023, respectively, a \$46,098 increase, which approximates current earnings less preferred stock dividends. The Association’s debt as a percentage of members’ equity was 5.89:1 as of September 30, 2024, compared to 6.56:1 as of December 31, 2023. FCA regulations require associations 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. See note 4 in the *Notes to Unaudited Consolidated Financial Statements*. As of September 30, 2024, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements. See Note 1 in CFS.

Relationship With FCBT. The Association has a statutory obligation to borrow only from FCBT, which is discussed in note 10, *Note Payable to FCBT*, in the Association’s consolidated financial statements in the 2023 Annual Report.

FCBT’s ability to access Association capital is discussed in note 2, *Summary of Significant Accounting Policies*, in the Association’s consolidated financial statements in the 2023 Annual Report, within the *Capital Stock Investment in the FCBT* section.

FCBT’s role to help mitigate Association exposure to IRR is described in the *Liquidity and Funding Sources* section of *Management’s Discussion and Analysis of Financial Condition and Results of Operations* and note 9, *Note Payable to FCBT*, in the Association’s consolidated financial statements in the 2023 Annual Report.

FCBT provides computer systems to support the critical operations of all *10th Farm Credit District (“District”)* associations. In addition, each association has operating systems and facility-based systems that are not supported by FCBT. As disclosed in note 13,

Related Party Transactions, in the Association's consolidated financial statements in the 2023 Annual Report, FCBT provides many services to the Association, which include administrative, marketing, accounting services and information systems.

The Association's financial condition may be impacted by factors that affect FCBT. The financial condition and results of operations of FCBT may materially affect Association stockholders' investment in the Association.

Annual and Quarterly Stockholder Report Availability. FCBT's annual and quarterly stockholder reports 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) 465-1881. The annual and quarterly stockholder reports for FCBT are also available on its website at www.farmcreditbank.com.

Annual and quarterly stockholder reports for the Association are available free of charge on the Association's website www.agtexas.com or by *i*) writing to AgTexas Farm Credit Services, 5004 N. Loop 289, Lubbock, Texas 79416, *ii*) calling (806) 687-4068, or *iii*) e-mailing jeff.fairchild@agtexas.com.



Consolidated Balance Sheets
(Dollars in thousands)

	September 30, 2024	December 31, 2023
	Unaudited	Audited
<u>Assets</u>		
Cash	\$ 8	\$ 8
Investments (\$200,506 and \$189,862, at fair value)	200,608	190,054
Loans	2,943,226	2,920,811
Less: allowance for loan losses	11,296	11,927
Net loans	2,931,930	2,908,884
Accrued interest receivable	51,441	49,029
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	54,158	54,182
Other	21,442	20,987
Other property owned, net	2,642	12,828
Premises and equipment	25,688	25,277
Other assets	4,060	3,678
Total assets	\$ 3,291,977	\$ 3,264,927
<u>Liabilities</u>		
Note payable to the Farm Credit Bank of Texas	\$ 2,765,396	\$ 2,757,049
Advance conditional payments	19,797	19,014
Accrued interest payable	10,942	10,691
Accrued postretirement benefit liability	6,405	6,313
Patronage and dividends payable	1,150	29,759
Other liabilities	10,391	10,303
Total liabilities	2,814,081	2,833,129
<u>Members' Equity</u>		
Capital stock and participation certificates	4,196	4,311
Preferred stock	80,000	80,000
Allocated retained earnings	17,251	17,251
Unallocated retained earnings	302,110	256,108
Additional paid-in capital	72,711	72,711
Accumulated other comprehensive income	1,628	1,417
Total members' equity	477,896	431,798
Total liabilities and members' equity	\$ 3,291,977	\$ 3,264,927

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



Unaudited Consolidated Statements of Comprehensive Income
(Dollars in thousands)

	For the three months ended		For the nine months ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
<u>Interest income</u>				
Loans	\$ 51,107	\$ 46,726	\$ 149,289	\$ 130,842
Investments	2,775	2,403	8,240	5,962
Total interest income	<u>53,882</u>	<u>49,129</u>	<u>157,529</u>	<u>136,804</u>
<u>Interest expense</u>				
Note payable to the Farm Credit Bank of Texas	33,318	29,210	96,889	79,617
Advance conditional payments	140	204	566	707
Total interest expense	<u>33,458</u>	<u>29,414</u>	<u>97,455</u>	<u>80,324</u>
Net interest income	20,424	19,715	60,074	56,480
Provision for (reversal of) loan losses	275	720	28	3,036
Net interest income after provision for (reversal of) losses	<u>20,149</u>	<u>18,995</u>	<u>60,046</u>	<u>53,444</u>
<u>Noninterest income</u>				
Farm Credit Bank of Texas patronage income	5,580	1,158	17,183	14,526
Loan fees	402	419	1,520	1,057
Fees for financially related services	1,299	1,977	1,936	5,361
Other property owned	(397)	-	(1,715)	-
Other	823	839	3,438	1,955
Total noninterest income	<u>7,707</u>	<u>4,393</u>	<u>22,362</u>	<u>22,899</u>
<u>Noninterest expenses</u>				
Salaries and employee benefits	7,451	6,966	21,825	21,784
Directors' expense	110	91	307	260
Purchased services	775	341	1,930	1,896
Travel	516	533	1,509	1,573
Occupancy and equipment	515	474	1,656	1,317
Communication	86	77	253	239
Advertising	214	188	631	509
Public and member relations	268	307	979	1,130
Federally regulated examination fees	232	251	734	684
FCSIC insurance premiums	594	997	1,741	2,919
Other components of net periodic postretirement benefit cost	67	59	201	176
Other noninterest expense	371	591	1,190	1,415
Total noninterest expenses	<u>11,199</u>	<u>10,875</u>	<u>32,956</u>	<u>33,902</u>
Net income	<u>16,657</u>	<u>12,513</u>	<u>49,452</u>	<u>42,441</u>
Other comprehensive income (loss):				
Change in postretirement benefit plans	(18)	(20)	(54)	(61)
Change in fair value of available for sale investments	(130)	35	265	(122)
Total other comprehensive income (loss)	<u>(148)</u>	<u>15</u>	<u>211</u>	<u>(183)</u>
Comprehensive income	<u>\$ 16,509</u>	<u>\$ 12,528</u>	<u>\$ 49,663</u>	<u>\$ 42,258</u>

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

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Unaudited Consolidated Statements of Changes in Members' Equity
(Dollars in thousands)

	Capital Stock/ Participation Certificates	Preferred Stock	Retained Earnings		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated			
Balance at December 31, 2022	\$ 4,436	\$ 80,000	\$ 17,251	\$ 225,944	\$ 72,711	\$ 1,537	\$ 401,879
Comprehensive income	-	-	-	42,441	-	(183)	42,258
CECL standard adoption adjustment	-	-	-	399	-	-	399
Capital stock/participation certificates issued	392	-	-	-	-	-	392
Capital stock/participation certificates retired	(461)	-	-	-	-	-	(461)
Preferred stock dividends: Paid or declared	-	-	-	(3,450)	-	-	(3,450)
Patronage dividends: Paid or accrued	-	-	-	-	-	-	-
Balance at September 30, 2023	<u>\$ 4,367</u>	<u>\$ 80,000</u>	<u>\$ 17,251</u>	<u>\$ 265,334</u>	<u>\$ 72,711</u>	<u>\$ 1,354</u>	<u>\$ 441,017</u>
Balance at December 31, 2023	\$ 4,311	\$ 80,000	\$ 17,251	\$ 256,108	\$ 72,711	\$ 1,417	\$ 431,798
Comprehensive income	-	-	-	49,452	-	211	49,663
Capital stock/participation certificates issued	373	-	-	-	-	-	373
Capital stock/participation certificates retired	(488)	-	-	-	-	-	(488)
Preferred stock dividends: Paid or declared	-	-	-	(3,450)	-	-	(3,450)
Patronage dividends: Paid or accrued	-	-	-	-	-	-	-
Balance at September 30, 2024	<u>\$ 4,196</u>	<u>\$ 80,000</u>	<u>\$ 17,251</u>	<u>\$ 302,110</u>	<u>\$ 72,711</u>	<u>\$ 1,628</u>	<u>\$ 477,896</u>

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

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Notes to Consolidated Financial Statements

Note 1: Organization, Operations and Significant Accounting Policies

AgTexas Farm Credit Services and its wholly-owned subsidiaries, *AgTexas, PCA* (“PCA”) and *AgTexas, FLCA* (“FLCA”), are collectively referred to herein as the “Association.” The Association provides financing and related services through FLCA and PCA. FLCA makes secured long-term agricultural real estate and rural home mortgage loans. PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

These notes and the encompassing unaudited consolidated financial statements for the Association (collectively referred to herein as “CFS”), include the accounts of PCA and FLCA. All significant intercompany balances and transactions are eliminated in consolidation. In management’s opinion, the CFS reflect all adjustments necessary to fairly state results for the interim periods presented, which are of a normal recurring nature.

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* (“2023 Annual Report”).

In the opinion of management, the CFS contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with GAAP, except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by *Farm Credit Administration* (“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 the CFS. These CFS 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. 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. 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.

Significant Recent 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 enhanced rate reconciliation will require tabular reporting by amount and percentage for specifically defined reconciling items as well as additional information for reconciling items that meet a quantitative threshold of greater than five percent of the amount computed by multiplying pre-tax income by the applicable statutory income tax rate. Income taxes paid will require disaggregated disclosure by federal, state and foreign jurisdictions for amounts exceeding a quantitative threshold of greater than five percent of total income taxes paid. The guidance will also eliminate the requirement to disclose an estimate of the range of the reasonably possible change in the unrecognized tax benefits balances in the next 12 months. The amendments in this guidance are effective for public business entities for annual periods beginning after December 15, 2024 and should be applied on a prospective basis, although retrospective application is permitted. Early adoption is also permitted for annual financial statements that have not yet been issued or made available for issuance. 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.

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.

Rounding. Certain amounts in tables may not agree due to rounding.

Note 2: Investment Securities

Held to Maturity (“HTM”). Federal Agricultural Mortgage Corporation (“**Farmer Mac**”) guaranteed agricultural mortgage-backed securities (“**AMBS**”) comprise the Association’s HTM investment portfolio, and the Association services the underlying loans. Additional information follows:

	AMBS					Weighted Average Yield
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value		
September 30, 2024	\$ 102	\$ -	\$ (5)	\$ 97		4.85%
December 31, 2023	192	-	(11)	181		4.91%

The Association has not experienced impairments of these securities. Farmer Mac guarantees the underlying mortgages, and the Association has the ability and intent to hold these securities to maturity or pay-off and it is unlikely the Association would be required to sell these securities. These AMBS have contractual weighted average maturities of 6.13 years as of September 30, 2024, however, expected maturities differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Available for sale (“AFS”). The Association’s AFS investment securities consist entirely of Small Business Administration (“**SBA**”) pool securities. A summary of the amortized cost and fair value of AFS investment securities is as follows:

	SBA Pool Securities					Weighted Average Yield
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value		
September 30, 2024	\$ 199,709	\$ 1,371	\$ (574)	\$ 200,506		8.14%
December 31, 2023	189,330	1,160	(628)	189,862		8.22%

The following table is a summary of the contractual maturity, fair value, amortized cost and weighted average yield of AFS investments securities at September 30, 2024:

	SBA Pool Securities					Total
	Due in 1 Year or Less	Due After 1 Year Through 5 Years	Due After 5 Years Through 10 Years	Due After 10 Years		
Fair value	\$ -	\$ 4,775	\$ 39,161	\$ 156,570	\$ 200,506	
Amortized cost	-	4,744	38,821	156,144	199,709	
Weighted average yield	0.00%	9.03%	9.04%	7.89%	8.14%	

Note 3: Loans and Allowance for Credit Losses

Loans. Loan carrying amounts (outstanding principal adjusted as applicable for capitalized accrued interest, direct partial charge-offs, deferred fees or costs on originated loans, and unamortized purchase premiums and discounts; excludes uncapitalized accrued interest) by portfolio segment follows:

Loan Type	September 30, 2024		December 31, 2023	
	Amount	%	Amount	%
Real estate mortgage	\$ 1,451,962	49.5%	\$ 1,459,247	49.9%
Production and intermediate term	1,116,101	37.9%	1,088,091	37.3%
Agribusiness:				
Loans to cooperatives	9,435	0.3%	12,813	0.4%
Processing and marketing	226,279	7.7%	213,775	7.3%
Farm-related business	46,576	1.6%	55,602	1.9%
Communication	24,668	0.8%	19,490	0.7%
Energy	8,362	0.3%	6,905	0.2%
Water and waste water	9,920	0.3%	13,434	0.5%
Rural residential real estate	6,576	0.2%	5,581	0.2%
Agricultural export finance	12,929	0.4%	11,568	0.4%
Lease receivables	6,650	0.2%	8,732	0.3%
Mission-related investments	23,768	0.8%	25,573	0.9%
Total	<u>\$ 2,943,226</u>	<u>100.0%</u>	<u>\$ 2,920,811</u>	<u>100.0%</u>

Mission-related investment and real estate mortgage loans purchased with 100% U.S. government agency or government sponsored enterprise guarantees present essentially no credit risk other than purchase premiums, which are forfeited when borrowers prepay or refinance their loans before the premiums are fully amortized. Management anticipates and considers potential prepayments to estimate an appropriate amortization period. Net purchased premiums included in the mission-related investment and real estate mortgage loan balances above as of September 30, 2024 and December 31, 2023, follow:

	September 30, 2024	December 31, 2023
Real estate mortgage	\$ 587	\$ 928
Mission-related investments	284	260
Total premium	<u>\$ 871</u>	<u>\$ 1,188</u>

The Association may purchase or sell participations in loans to diversify risk, manage loan volume, and comply with FCA regulations. Participation carrying amount details as of September 30, 2024 follow:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations	Participations	Participations	Participations	Participations	Participations
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$ 170,750	\$ 384,399	\$ 117,975	\$ -	\$ 288,725	\$ 384,399
Production and intermediate term	148,658	1,493,575	165,043	-	313,701	1,493,575
Agribusiness	205,038	52,581	3,154	-	208,192	52,581
Communication	24,668	-	-	-	24,668	-
Energy	8,362	-	-	-	8,362	-
Water and waste water	9,920	-	-	-	9,920	-
Agricultural export finance	12,929	-	-	-	12,929	-
Lease receivables	6,650	-	-	-	6,650	-
Mission-related investments	-	-	23,483	-	23,483	-
Total	\$ 586,975	\$ 1,930,555	\$ 309,655	\$ -	\$ 896,630	\$ 1,930,555

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 \$38,715 and \$43,275 at September 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 our outstanding loans, letters of credit and unfunded loan commitments. The Association manages credit risk associated with the retail lending activities through an analysis of the credit risk profile of an individual borrower using its own set of underwriting standards and lending policies, approved by its board of directors, which provides direction to its loan officers. The retail credit risk management process begins with an analysis of the borrower’s credit history, repayment capacity, financial position and collateral, which includes an analysis of credit scores for smaller loans. Repayment capacity focuses on the borrower’s ability to repay the loan based on cash flows from operations or other sources of income, including off-farm income. Real estate mortgage loans must be secured by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85% of the original appraised value of the property taken as security or up to 97% of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Loans other than real estate mortgage may be made on a secured or unsecured basis.

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

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

- acceptable — assets are expected to be fully collectible and represent the highest quality,
- other assets especially mentioned (**OAEM**) — assets are currently collectible but exhibit some potential weakness,
- substandard — assets exhibit some serious weakness in repayment capacity, equity, or collateral pledged on the loan,
- doubtful — assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable, and
- loss — assets are considered uncollectible.

The following table presents credit quality indicators by loan type and the related principal balance:

	Amortized Cost								
	Term Loans by Origination Year						Revolving Loans Converted to Term		
	2024	2023	2022	2021	2020	Prior	Revolving Loans	Loans	Total
Real estate mortgage									
Acceptable	\$ 111,304	\$ 147,243	\$ 194,314	\$ 360,095	\$ 193,082	\$ 353,125	\$ 45,713	\$ 1,642	\$ 1,406,518
OAEM	809	10,106	66	555	4,273	11,452	-	-	27,261
Substandard/Doubtful	1,665	1,339	4,117	3,147	3,183	4,732	-	-	18,183
	113,778	158,688	198,497	363,797	200,538	369,309	45,713	1,642	1,451,962
Production and intermediate-term									
Acceptable	80,425	62,570	28,048	29,435	13,406	9,899	845,095	-	1,068,878
OAEM	2,635	1,703	428	79	193	-	36,708	-	41,746
Substandard/Doubtful	-	1,076	220	156	-	582	3,443	-	5,477
	83,060	65,349	28,696	29,670	13,599	10,481	885,246	-	1,116,101
Agribusiness									
Acceptable	21,669	43,151	46,249	22,151	25,957	8,834	93,716	370	262,097
OAEM	129	-	1,987	42	399	2,253	1,866	117	6,793
Substandard/Doubtful	-	13,315	-	-	-	-	85	-	13,400
	21,798	56,466	48,236	22,193	26,356	11,087	95,667	487	282,290
Communication									
Acceptable	4,289	13,787	1,418	-	4,552	-	622	-	24,668
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	4,289	13,787	1,418	-	4,552	-	622	-	24,668
Energy									
Acceptable	1,939	2,997	-	-	-	3,336	90	-	8,362
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	1,939	2,997	-	-	-	3,336	90	-	8,362
Water and waste water									
Acceptable	-	3,841	3,185	2,479	-	-	415	-	9,920
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	-	3,841	3,185	2,479	-	-	415	-	9,920

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	Amortized Cost								
	Term Loans by Origination Year						Revolving Loans Converted to Term		Total
	2024	2023	2022	2021	2020	Prior	Revolving Loans	Loans	
Rural home									
Acceptable	\$ 1,736	\$ 1,194	\$ 1,390	\$ 793	\$ 180	\$ 1,283	\$ -	\$ -	\$ 6,576
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>1,736</u>	<u>1,194</u>	<u>1,390</u>	<u>793</u>	<u>180</u>	<u>1,283</u>	<u>-</u>	<u>-</u>	<u>6,576</u>
Leases									
Acceptable	-	2,265	-	3,243	1,066	76	-	-	6,650
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>-</u>	<u>2,265</u>	<u>-</u>	<u>3,243</u>	<u>1,066</u>	<u>76</u>	<u>-</u>	<u>-</u>	<u>6,650</u>
Agricultural export finance									
Acceptable	-	11,569	-	-	-	-	1,360	-	12,929
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>-</u>	<u>11,569</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,360</u>	<u>-</u>	<u>12,929</u>
Mission related									
Acceptable	1,630	-	-	1,603	1,292	19,243	-	-	23,768
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>1,630</u>	<u>-</u>	<u>-</u>	<u>1,603</u>	<u>1,292</u>	<u>19,243</u>	<u>-</u>	<u>-</u>	<u>23,768</u>
Total									
Acceptable	222,992	288,617	274,604	419,799	239,535	395,796	987,011	2,012	2,830,366
OAEM	3,573	11,809	2,481	676	4,865	13,705	38,574	117	75,800
Substandard/Doubtful	1,665	15,730	4,337	3,303	3,183	5,314	3,528	-	37,060
	<u>\$ 228,230</u>	<u>\$ 316,156</u>	<u>\$ 281,422</u>	<u>\$ 423,778</u>	<u>\$ 247,583</u>	<u>\$ 414,815</u>	<u>\$ 1,029,113</u>	<u>\$ 2,129</u>	<u>\$ 2,943,226</u>

The charge-offs of principal during the nine months ended September 30, 2024 are as follows:

	Amortized Cost								
	Gross Charge-offs by Origination Year						Revolving Loans Converted to Term		Total
	2024	2023	2022	2021	2020	Prior	Revolving Loans	Loans	
Real estate mortgage	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2	\$ -	\$ -	\$ 2
Production and intermediate-term	-	223	-	28	1	-	442	-	694
Agribusiness	-	-	-	-	-	14	-	-	14
Total	<u>\$ -</u>	<u>\$ 223</u>	<u>\$ -</u>	<u>\$ 28</u>	<u>\$ 1</u>	<u>\$ 16</u>	<u>\$ 442</u>	<u>\$ -</u>	<u>\$ 710</u>

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

	Amortized Cost								
	Term Loans by Origination Year						Revolving Loans		
	2023	2022	2021	2020	2019	Prior	Revolving Loans	Converted to Term	Total
Real estate mortgage									
Acceptable	\$ 166,645	\$ 211,977	\$ 388,586	\$ 202,611	\$ 84,270	\$ 313,869	\$ 44,438	\$ 399	\$ 1,412,795
OAEM	10,113	-	1,987	4,288	7,017	5,194	1,250	102	29,951
Substandard/Doubtful	2,734	4,175	894	3,640	3,713	1,345	-	-	16,501
	179,492	216,152	391,467	210,539	95,000	320,408	45,688	501	1,459,247
Production and intermediate-term									
Acceptable	97,185	34,252	43,358	19,173	7,655	6,037	823,148	-	1,030,808
OAEM	3,640	945	595	192	128	117	42,435	-	48,052
Substandard/Doubtful	772	339	146	14	1,104	641	6,215	-	9,231
	101,597	35,536	44,099	19,379	8,887	6,795	871,798	-	1,088,091
Agribusiness									
Acceptable	50,180	54,934	31,529	32,571	8,681	717	82,455	-	261,067
OAEM	-	1,310	1,453	431	-	2,464	1,691	128	7,477
Substandard/Doubtful	13,646	-	-	-	-	-	-	-	13,646
	63,826	56,244	32,982	33,002	8,681	3,181	84,146	128	282,190
Communications									
Acceptable	13,239	1,477	4,587	-	-	-	187	-	19,490
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	13,239	1,477	4,587	-	-	-	187	-	19,490
Energy									
Acceptable	2,996	-	-	-	-	3,702	207	-	6,905
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	2,996	-	-	-	-	3,702	207	-	6,905
Water and waste water									
Acceptable	3,888	3,319	2,497	-	-	-	3,730	-	13,434
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	3,888	3,319	2,497	-	-	-	3,730	-	13,434
Rural home									
Acceptable	1,543	1,347	902	206	522	1,061	-	-	5,581
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	1,543	1,347	902	206	522	1,061	-	-	5,581

	Amortized Cost								
	Term Loans by Origination Year						Revolving Loans		
	2023	2022	2021	2020	2019	Prior	Revolving Loans	Converted to Term	Total
Leases									
Acceptable	\$ 2,618	\$ -	\$ 4,309	\$ 1,628	\$ 173	\$ 4	\$ -	\$ -	\$ 8,732
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	2,618	-	4,309	1,628	173	4	-	-	8,732
Agricultural export finance									
Acceptable	11,568	-	-	-	-	-	-	-	11,568
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	11,568	-	-	-	-	-	-	-	11,568
Mission related									
Acceptable	-	-	1,663	1,328	6,527	16,055	-	-	25,573
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	-	-	1,663	1,328	6,527	16,055	-	-	25,573
Total									
Acceptable	349,862	307,306	477,431	257,517	107,828	341,445	954,165	399	2,795,953
OAEM	13,753	2,255	4,035	4,911	7,145	7,775	45,376	230	85,480
Substandard/Doubtful	17,152	4,514	1,040	3,654	4,817	1,986	6,215	-	39,378
	\$ 380,767	\$ 314,075	\$ 482,506	\$ 266,082	\$ 119,790	\$ 351,206	\$ 1,005,756	\$ 629	\$ 2,920,811

The charge-offs of principal for year ended December 31, 2023 are as follows:

	Amortized Cost								
	Gross Charge-offs by Origination Year						Revolving Loans		
	2023	2022	2021	2020	2019	Prior	Revolving Loans	Converted to Term	Total
Real estate mortgage	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12	\$ -	\$ -	\$ 12
Production and intermediate-term	375	11	1	-	3	15	432	-	837
Agribusiness	1,021	-	-	-	-	-	-	-	1,021
Total	\$ 1,396	\$ 11	\$ 1	\$ -	\$ 3	\$ 27	\$ 432	\$ -	\$ 1,870

Accrued interest receivable on loans of \$48,922 and \$46,589 at September 30, 2024 and December 31, 2023, respectively, have been excluded from the amortized cost of loans and reported separately in the consolidated balance sheets. The Association wrote off accrued interest receivable of \$14 and \$115 for the nine months ended September 30, 2024 and 2023, respectively.

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

	<u>September 30, 2024</u>	<u>December 31, 2023</u>
Nonaccrual loans:		
Real estate mortgage	\$ 4,267	\$ 4,552
Production and intermediate-term	1,035	3,618
Agribusiness	84	-
Total nonaccrual loans	<u>5,386</u>	<u>8,170</u>
Accruing loans 90 days or more past due:		
Real estate mortgage	1,642	390
Mission-related investments	288	1,101
Accruing loans 90 days or more past due total	<u>1,930</u>	<u>1,491</u>
Other property owned	<u>2,642</u>	<u>12,828</u>
Total nonperforming assets	<u>\$ 9,958</u>	<u>\$ 22,489</u>
Nonaccrual loans as a percentage of total loans	0.2%	0.3%
Nonperforming assets as a percentage of total loans and other property owned	0.3%	0.8%
Nonperforming assets as a percentage of capital	2.1%	5.2%

The following table provides 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>September 30, 2024</u>			<u>Interest Income Recognized</u>	
	<u>Amortized Cost</u>			<u>For the three months ended</u>	<u>For the nine months ended</u>
	<u>With Allowance</u>	<u>Without Allowance</u>	<u>Total</u>	<u>September 30, 2024</u>	<u>September 30, 2024</u>
Real estate mortgage	\$ 1,931	\$ 2,336	\$ 4,267	\$ 4	\$ 5
Production and intermediate-term	153	882	1,035	24	24
Agribusiness	-	84	84	-	2
Mission related	-	-	-	-	302
Total	<u>\$ 2,084</u>	<u>\$ 3,302</u>	<u>\$ 5,386</u>	<u>\$ 28</u>	<u>\$ 333</u>
	<u>December 31, 2023</u>			<u>Interest Income Recognized</u>	
	<u>Amortized Cost</u>			<u>For the three months ended</u>	<u>For the nine months ended</u>
	<u>With Allowance</u>	<u>Without Allowance</u>	<u>Total</u>	<u>September 30, 2023</u>	<u>September 30, 2023</u>
Real estate mortgage	\$ 1,910	\$ 2,642	\$ 4,552	\$ 23	\$ 68
Production and intermediate-term	1,328	2,290	3,618	(21)	36
Agribusiness	-	-	-	21	21
Mission related	-	-	-	68	68
Total	<u>\$ 3,238</u>	<u>\$ 4,932</u>	<u>\$ 8,170</u>	<u>\$ 91</u>	<u>\$ 193</u>

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

September 30, 2024							Amortized
	30-89	90 Days	Total	Not Past Due or	Total	Amortized	
	Days	or More	Past	less than 30	Loans	Cost	
	Past Due	Past Due	Due	Days Past Due		>90 days and	
						Accruing	
Real estate mortgage	\$ 21,661	\$ 5,712	\$ 27,373	\$ 1,424,589	\$ 1,451,962	\$ 1,642	
Production and intermediate-term	4,119	652	4,771	1,111,330	1,116,101	-	
Loans to cooperatives	-	-	-	9,435	9,435	-	
Processing and marketing	1,987	84	2,071	224,208	226,279	-	
Farm-related business	-	-	-	46,576	46,576	-	
Communication	-	-	-	24,668	24,668	-	
Energy	-	-	-	8,362	8,362	-	
Water and waste water	-	-	-	9,920	9,920	-	
Rural residential real estate	-	-	-	6,576	6,576	-	
Agricultural export finance	-	-	-	12,929	12,929	-	
Lease receivables	-	-	-	6,650	6,650	-	
Mission-related investments	2,311	289	2,600	21,168	23,768	289	
Total	\$ 30,078	\$ 6,737	\$ 36,815	\$ 2,906,411	\$ 2,943,226	\$ 1,931	

December 31, 2023							Amortized
	30-89	90 Days	Total	Not Past Due or	Total	Amortized	
	Days	or More	Past	less than 30	Loans	Cost	
	Past Due	Past Due	Due	Days Past Due		>90 days and	
						Accruing	
Real estate mortgage	\$ 11,492	\$ 4,824	\$ 16,316	\$ 1,442,931	\$ 1,459,247	\$ 390	
Production and intermediate-term	4,370	332	4,702	1,083,389	1,088,091	-	
Loans to cooperatives	-	-	-	12,813	12,813	-	
Processing and marketing	-	-	-	213,775	213,775	-	
Farm-related business	-	-	-	55,602	55,602	-	
Communication	-	-	-	19,490	19,490	-	
Energy	-	-	-	6,905	6,905	-	
Water and waste water	-	-	-	13,434	13,434	-	
Rural residential real estate	-	-	-	5,581	5,581	-	
Agricultural export finance	-	-	-	11,567	11,567	-	
Lease receivables	-	-	-	8,732	8,732	-	
Mission-related investments	2,418	1,101	3,519	22,055	25,574	1,101	
Total	\$ 18,280	\$ 6,257	\$ 24,537	\$ 2,896,274	\$ 2,920,811	\$ 1,491	

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 and internal lending limits. 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% of the Association's lending and leasing limit base but the Association's boards of directors have generally established more restrictive lending limits.

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

	Real Estate Mortgage	Production and Intermediate Term	Agri- business	Commun- ication	Energy	Water and Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Lease Receivable	Mission- Related Investments	Total
Allowance for Loan Losses:											
Balance at December 31, 2023	\$ 6,579	\$ 3,787	\$ 1,414	\$ 44	\$ 4	\$ 23	\$ 11	\$ 12	\$ 53	\$ -	\$ 11,927
Charge-offs	(2)	(694)	(14)	-	-	-	-	-	-	-	(710)
Recoveries	37	60	-	-	-	-	-	-	-	-	97
Provision for loan losses	(332)	(38)	335	29	2	(7)	(1)	(2)	(5)	-	(19)
Balance at September 30, 2024	6,282	3,115	1,735	73	6	16	10	10	48	-	11,295
Allowance for Unfunded Commitments:											
Balance at December 31, 2023	15	250	249	6	-	4	-	7	-	-	531
Provision for unfunded commitments	20	92	(66)	2	-	1	-	(2)	-	-	47
Balance at September 30, 2024	35	342	183	8	-	5	-	5	-	-	578
Total Allowance for Credit Losses	\$ 6,317	\$ 3,457	\$ 1,918	\$ 81	\$ 6	\$ 21	\$ 10	\$ 15	\$ 48	\$ -	\$ 11,873

	Real Estate Mortgage	Production and Intermediate Term	Agri- business	Commun- ication	Energy	Water and Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Lease Receivable	Mission- Related Investments	Total
Allowance for Loan Losses:											
Balance at December 31, 2022	\$ 2,382	\$ 3,341	\$ 2,167	\$ 29	\$ 3	\$ 12	\$ 9	\$ 10	\$ 65	\$ 1	\$ 8,019
Charge-offs	(27)	(8)	(1,021)	-	-	-	-	-	-	-	(1,056)
Recoveries	13	20	1,011	-	-	-	-	-	-	-	1,044
Provision for loan losses	1,385	2,140	(499)	31	2	15	(1)	(1)	1	-	3,073
Cumulative effect of a change in accounting principle	2,128	(1,510)	(73)	(6)	(1)	1	3	4	(9)	2	539
Balance at September 30, 2023	5,881	3,983	1,585	54	4	28	11	13	57	3	11,619
Allowance for Unfunded Commitments:											
Balance at December 31, 2022	28	1,113	308	1	-	4	1	7	-	-	1,462
Cumulative effect of a change in accounting principle	(20)	(865)	(52)	1	-	(1)	(1)	-	-	-	(938)
Balance at January 2023	8	248	256	2	-	3	-	7	-	-	524
Provision for unfunded commitments	4	28	(74)	-	-	4	-	1	-	-	(37)
Balance at September 30, 2023	12	276	182	2	-	7	-	8	-	-	487
Total Allowance for Credit Losses	\$ 5,893	\$ 4,259	\$ 1,767	\$ 56	\$ 4	\$ 35	\$ 11	\$ 21	\$ 57	\$ 3	\$ 12,106

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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.

	Term or Payment Extensions For The Nine Months Ended			
	September 30, 2024		September 30, 2023	
	\$	Percent of Total Loans	\$	Percent of Total Loans
Real estate mortgage	3,536	0.1%	775	0.0%
Production and intermediate-term	457	0.0%	651	0.0%

	Term or Payment Extensions For The Three Months Ended			
	September 30, 2024		September 30, 2023	
	\$	Percent of Total Loans	\$	Percent of Total Loans
Real estate mortgage	-	0.0%	-	0.0%
Production and intermediate-term	-	0.0%	76	0.0%

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty as of September 30, 2024 and 2023 was \$0 and \$46, respectively.

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty during the nine months ended September 30, 2024 and 2023:

	Term or Payment Extensions	
	Change in Weighted Average Maturity After Extension	
	September 30, 2024	September 30, 2023
Real estate mortgage	240 days	240 days
Production and intermediate-term	250 days	746 days

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty during the three months ended September 30, 2024 and 2023:

	Term or Payment Extensions	
	Change in Weighted Average Maturity After Extension	
	September 30, 2024	September 30, 2023
Real estate mortgage	0 days	0 days
Production and intermediate-term	0 days	365 days

None of the loans to borrowers experiencing financial difficulty that received a modification during the nine months ended September 30, 2024 and 2023 defaulted in the period presented.

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 the adoption of the guidance noted above, for the nine months ended September 30, 2024 and 2023:

September 30, 2024		<u>Payment Status of Loans Modified in The Past 12 Months</u>		
		<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>
Real estate mortgage	\$	3,536	\$ -	\$ -
Production and intermediate-term		457	-	-

September 30, 2023		<u>Payment Status of Loans Modified in The Past 12 Months</u>		
		<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>
Real estate mortgage	\$	775	\$ -	\$ -
Production and intermediate-term		651	-	-

Additional commitments to lend to borrowers experiencing financial difficulty whose loans have been modified were \$7 and \$1,276 at September 30, 2024 and 2023, respectively.

Note 4: 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 institution's capital adequacy goals as well as the minimum capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's 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 an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

Regulatory Capitalization Requirements

	<u>Regulatory Minimums</u>	<u>Capital Conservation Buffer</u>	<u>Total</u>	<u>As of September 30, 2024</u>	<u>As of December 31, 2023</u>
Risk-adjusted:					
Common equity tier 1 ratio	4.50%	2.50%	7.00%	10.18%	10.01%
Tier 1 capital ratio	6.00%	2.50%	8.50%	12.72%	12.65%
Total capital ratio	8.00%	2.50%	10.50%	13.09%	13.04%
Permanent capital ratio	7.00%	0.00%	7.00%	12.76%	12.70%
Non-risk-adjusted:					
Tier 1 leverage ratio	4.00%	1.00%	5.00%	12.44%	12.17%
UREE leverage ratio	1.50%	0.00%	1.50%	9.29%	8.95%

Following are the amounts included in the calculation of the capital ratios as of September 30, 2024:

	Regulatory Capital		Risk Weighted Assets/ Adjusted Average Total Assets	
	9/30/2024	12/31/2023	9/30/2024	12/31/2023
Risk-adjusted capital ratios				
Common equity tier 1 ratio	\$ 320,452	\$ 303,669	\$ 3,148,276	\$ 3,032,792
Tier 1 capital ratio	400,452	383,669	3,148,276	3,032,792
Total capital ratio	411,989	395,470	3,148,276	3,032,792
Permanent capital ratio	400,452	383,669	3,137,260	3,021,479
Non-risk-adjusted capital ratios				
Tier 1 leverage ratio	400,452	383,669	3,219,247	3,153,339
UREE leverage ratio	298,990	282,083	3,219,247	3,153,339

Preferred stock issuance. In September 2021, the Association received clearance from FCA and the board approved the issuance of 80,000 shares of a series of preferred stock, par value of \$1,000 per share. The stock was issued October 6, 2021. The stock is designated as *Fixed Rate Reset Perpetual Non-Cumulative Preferred Stock, Series B* (“**Series B Preferred Stock**”). The Series B Preferred Stock has a fixed rate dividend of 5.75 percent for five years, payable quarterly. After five years, the dividend rate resets to the Five-Year Treasury Rate plus 4.74 percent. On or after five years, the Association may, at its option, redeem all or part of the Series B Preferred Stock. The Series B Preferred Stock is non-voting, except: (i) to materially change the Association’s Charter or Bylaws that would materially adversely affect the holder of Series B Preferred Stock, (ii) to create, issue or authorize any class of stock ranking senior to the Series B Preferred Stock as to dividends or liquidation, (iii) certain other limited circumstances detailed in the offering circular.

Note 5: Income taxes

The Association is subject to federal and certain other income taxes. The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. During 2024, the Association is participating in a patronage program. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management’s estimate, that they will not be realized. The subsidiary, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

Note 6: Fair Value Measurements

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

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

September 30, 2024	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Assets held in nonqualified benefit trusts	\$ 243	\$ -	\$ -	\$ 243
SBA pool securities	-	200,506	-	200,506
December 31, 2023				
December 31, 2023	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Assets held in nonqualified benefit trusts	\$ 214	\$ -	\$ -	\$ 214
SBA pool securities	-	189,862	-	189,862

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

September 30, 2024	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans*	\$ -	\$ -	\$ 611	\$ 611
Other property owned	-	-	2,642	2,642
December 31, 2023				
December 31, 2023	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans*	\$ -	\$ -	\$ 2,058	\$ 2,058
Other property owned	-	-	12,828	12,828

*Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance “*Accounting by Creditors for Impairment of a Loan*.” The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

Information About Recurring and Nonrecurring Level 3 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. System institutions utilize 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.

Information About Recurring and Nonrecurring Level 2 Fair Value Measurements. SBA pool securities are valued using a third-party pricing vendor. The Association's vendor utilizes major pricing services including Reuters and Intercontinental Exchange. The market values are based on inputs other than quoted prices, including:

- Quoted prices for similar assets in active markets.
- Quoted prices for identical or similar assets in markets that are not active.
- Inputs other than quoted prices, which provide a reasonable basis for fair value determination. Such inputs may include interest rates and yield curves, volatilities, prepayment speeds, credit risks and default rates.
- Inputs derived principally from observable market data.

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

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

Loans Evaluated for Impairment. For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying real estate collateral since the loans were collateral dependent. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management’s knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

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

Note 7: Employee Benefit Plans

Employee Retirement Benefits. The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the nine months ended September 30:

	2024	2023
Service cost	\$ 47	\$ 49
Interest cost	255	237
Amortization of prior service credits	(30)	(36)
Amortization of net actuarial loss	(24)	(25)
Net periodic benefit cost	<u>\$ 248</u>	<u>\$ 225</u>

The Association’s liability for the unfunded accumulated obligation for these benefits at September 30, 2024, was \$6,405 and is included in “Accrued postretirement benefit liability” in the balance sheet. The components of net periodic benefit cost other than the service cost component are included in the line item "Other components of net periodic postretirement benefit cost" in the income statements.

The structure of the Association’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 contributed \$676 to the District’s defined benefit pension plan in 2024. Pension plan funding expense was \$507 and \$899 for the nine months ended September 30, 2024 and 2023, respectively.

Note 8: Commitments and Contingent Liabilities

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

Note 9: Accumulated Other Comprehensive Income (Loss) (“AOCI”)

AOCI includes the accumulated balance of certain gains, losses or costs for which values are included in assets or liabilities on the balance sheets, but which have not yet been recognized in earnings. For the Association, these elements include unrealized gains or losses on the AFS investment securities and amortization of retirement benefit elements. The following table summarizes the changes in the components of AOCI for the nine months ended September 30, 2024 and 2023.

	Gain on SBA		
	Total	Pool Securities	Retirement Benefit Plans
AOCI at			
December 31, 2023	\$ 1,417	\$ 532	\$ 885
SBA pool securities:			
Net change in unrealized gains	265	265	-
Retirement benefit plans:			
Amortization of prior service credits	(30)	-	(30)
Amortization of net actuarial loss	(24)	-	(24)
AOCI at			
September 30, 2024	<u>\$ 1,628</u>	<u>\$ 797</u>	<u>\$ 831</u>
	Gain on SBA		
	Total	Pool Securities	Retirement Benefit Plans
AOCI at			
December 31, 2022	\$ 1,537	\$ 589	\$ 948
SBA pool securities:			
Net change in unrealized gains	(122)	(122)	-
Retirement benefit plans:			
Amortization of prior service credits and net actuarial loss	(36)	-	(36)
	(25)	-	(25)
AOCI at			
September 30, 2023	<u>\$ 1,354</u>	<u>\$ 467</u>	<u>\$ 887</u>

Note 10: Other Property Owned (“OPO”)

Revenues, expenses, gains and losses associated with OPO for the nine months ended September 30, 2024 and 2023 are comprised as follow:

	<u>September 30, 2024</u>	<u>September 30, 2023</u>
Carrying value adjustments	\$ (1,877)	\$ -
Operating income (expense), net	162	-
Net gain (loss) on other property owned	<u>\$ (1,715)</u>	<u>\$ -</u>

Note 11: Subsequent Events

Association management has evaluated subsequent events through October 24, 2024, which is the date the CFS were issued or available to be issued, with no significant events to report.