

Legacy Ag Credit, ACA

2024 Second Quarter Financial Report



For the Six Months Ended June 30, 2024

REPORT OF MANAGEMENT

The undersigned certify that we have reviewed this report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of our knowledge and belief.



Derrell W. Chapman, CPA, Chief Executive Officer
July 30, 2024



Terry Milligan, Chairman, Board of Directors
July 30, 2024



Heather Johnson, CPA, Chief Financial Officer
July 30, 2024

Second quarter 2024 Financial Report

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LEGACY AG CREDIT, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of Legacy Ag Credit, ACA (association or Legacy), 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 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 consolidated financial statements comprise the operations of the ACA and its wholly owned subsidiaries. The consolidated financial statements were prepared under the oversight of the association's audit committee.

Loan Portfolio

Total loans outstanding at June 30, 2024, including nonaccrual loans and sales contracts, were \$373,551,275 compared to \$375,772,990 at December 31, 2023, reflecting a decrease of 0.59%. Nonaccrual loans as a percentage of total loans outstanding were 0.18% at June 30, 2024, compared to 0.12% at December 31, 2023.

The association recorded \$600 in recoveries and \$0 in charge-offs for the quarter ended June 30, 2024, and \$4,142 in recoveries and \$0 in charge-offs for the same period in 2023. The association's allowance for loan losses was 0.29% and 0.29% of total loans outstanding as of June 30, 2024, and December 31, 2023, respectively.

Risk Exposure

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the association's components and trends of high-risk assets.

	High-Risk Assets			
	June 30, 2024		December 31, 2023	
	Amount	%	Amount	%
Nonaccrual	\$ 669,340	100.0%	\$ 440,261	100.0%

Results of Operations

The association had net income of \$1,342,634 and \$2,497,292 for the three and six months ended June 30, 2024, as compared to net income of \$1,678,889 and \$3,360,775 for the same periods in 2023, reflecting a decrease of 20.03% and 25.69%, respectively. The decrease is primarily due to a higher accrual of FCBT patronage in 2023 compared to 2024 and lower interest rate spreads during the first half of 2024 compared to the same period in 2023. Net interest income was \$2,748,405 and \$5,487,198 for the three and six months ended June 30, 2024, compared to \$2,610,190 and \$5,436,875 for the same period in 2023, reflecting an increase of 5.30% and 0.93% respectively.

	Six Months Ended			
	June 30, 2024		June 30, 2023	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 371,163,504	\$ 11,192,544	\$ 365,557,017	\$ 10,165,837
Interest-bearing liabilities	313,707,020	5,705,346	308,955,502	4,728,962
Impact of capital	<u>\$ 57,456,484</u>		<u>\$ 56,601,515</u>	
Net interest income		<u>\$ 5,487,198</u>		<u>\$ 5,436,875</u>

	2024	2023
	Average Yield	Average Yield
Yield on loans	6.06%	5.61%
Cost of interest-bearing liabilities	3.66%	3.09%
Interest rate spread	2.40%	2.52%
Net interest income as a percentage of average earning assets	2.97%	3.00%

Six Months Ended			
June 30, 2024 vs. June 30, 2023			
Increase (decrease) due to			
	Volume	Rate	Total
Interest income - loans	\$ 156,344	\$ 870,363	\$ 1,026,707
Interest expense	72,929	903,455	976,384
Net interest income	\$ 83,415	\$ (33,092)	\$ 50,323

Interest income for the three and six months ended June 30, 2024, increased by \$597,232 and \$1,026,707, or 11.88% and 10.10% respectively, from the same period of 2023, primarily due to an increase in average yields on loans and an increase in average loan volume. Interest expense for the three and six months ended June 30, 2024, increased by \$459,017 and \$976,384, or 18.99% and 20.65%, from the same period of 2023 primarily due to a decrease in average yields on loans. Average loan volume for the second quarter of 2024 was \$369,733,128 compared to \$363,569,889 in the second quarter of 2023. The average net interest rate spread on the loan portfolio for the second quarter of 2024 was 2.42% compared to 2.40% in the second quarter of 2023.

The association's return on average assets for the six months ended June 30, 2024, was 1.31% compared to 1.79% for the same period in 2023. The association's return on average equity for the six months ended June 30, 2024, was 7.46%, compared to 10.18% for the same period in 2023.

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.

	June 30, 2024	December 31, 2023
Note payable to the Bank	\$ 316,614,190	\$ 317,332,782
Accrued interest on note payable	974,900	942,054
Total	\$ 317,589,090	\$ 318,274,836

The association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2024. The primary source of liquidity and funding for the association is a direct loan from the Bank. The outstanding balance of \$316,614,190 as of June 30, 2024, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 3.66 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 decrease in note payable to the Bank and related increase interest bearing liabilities since December 31, 2023, is due to the association's decrease in loan volume and increased cost of interest-bearing liabilities. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were \$56,245,671 at June 30, 2024. The maximum amount the association may borrow from the Bank as of June 30, 2024, was \$376,299,353 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, which is September 30, 2024, 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.

Capital Resources

The association's capital position decreased by \$509,742 at June 30, 2024, compared to December 31, 2023 due to the establishment of a \$3 million patronage payable during the first quarter of 2024. The association's debt as a percentage of members' equity was 4.60:1 as of June 30, 2024, compared to 4.58:1 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 stockholder's 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 can be found at the Bank's 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 Legacy Ag Credit, ACA, 303 Connally St., Sulphur Springs, TX 75482 or calling (903) 885-9566. The annual and quarterly stockholder reports for the association are also available on its website at www.legacyaca.com. Copies of the association's quarterly stockholder reports can also be requested by e-mailing sherry.sturgis@legacyaca.com.

Legacy Ag Credit, ACA

CONSOLIDATED BALANCE SHEETS

	June 30, 2024 (unaudited)	December 31, 2023
<u>ASSETS</u>		
Cash	\$ 137,889	\$ 138,043
Loans	373,551,275	375,772,990
Less: allowance for credit losses on loans	1,100,610	1,095,402
Net loans	372,450,665	374,677,588
Accrued interest receivable	2,942,234	2,436,348
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	6,173,070	6,173,070
Allocated Equity	253,681	253,681
Other	682,499	178,118
Premises and equipment, net	5,479,027	5,605,940
Other assets	299,106	220,526
Total assets	\$ 388,418,171	\$ 389,683,314
<u>LIABILITIES</u>		
Note payable to the Farm Credit Bank of Texas	\$ 316,614,190	\$ 317,332,782
Advance conditional payments	-	1,000
Accrued interest payable	974,900	942,054
Drafts outstanding	294,068	43,222
Other liabilities	1,202,449	1,521,950
Total liabilities	\$ 319,085,607	\$ 319,841,008
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	\$ 1,171,810	\$ 1,176,510
Nonqualified allocated retained earnings	23,929,068	22,858,251
Unallocated retained earnings	44,164,622	45,738,155
Accumulated other comprehensive income (loss)	67,064	69,390
Total members' equity	69,332,564	69,842,306
Total liabilities and members' equity	\$ 388,418,171	\$ 389,683,314

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

Legacy Ag Credit, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2024	2023	2024	2023
<u>INTEREST INCOME</u>				
Loans	\$ 5,624,851	\$ 5,027,619	\$ 11,192,544	\$ 10,165,837
<u>INTEREST EXPENSE</u>				
Note payable to the Farm Credit Bank of Texas	2,876,182	2,417,291	5,702,332	4,728,781
Advance conditional payments	264	138	3,014	181
Total interest expense	2,876,446	2,417,429	5,705,346	4,728,962
Net interest income	2,748,405	2,610,190	5,487,198	5,436,875
<u>PROVISION FOR LOAN LOSSES</u>	36,675	(80,684)	1,541	(167,332)
Net interest income after provision for credit losses	2,711,730	2,690,874	5,485,657	5,604,207
<u>NONINTEREST INCOME</u>				
Income from the Farm Credit Bank of Texas:				
Patronage income	297,236	529,548	595,486	1,089,328
Loan fees	94,213	63,789	164,994	130,948
Refunds from Farm Credit System				
Insurance Corporation	85,099	-	85,099	-
Financially related services income	9	8	113	102
Gain (loss) on sale of premises and equipment, net	822	324,283	822	322,861
Other noninterest income	5,525	(2,130)	33,601	27,625
Total noninterest income	482,904	915,498	880,115	1,570,864
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	1,109,064	1,167,414	2,400,330	2,334,558
Directors' expense	65,216	68,578	112,835	128,091
Purchased services	135,880	134,133	287,277	253,351
Travel	70,522	54,086	147,864	111,649
Occupancy and equipment	156,493	164,824	319,368	319,842
Communications	29,429	29,752	64,504	58,435
Advertising	25,890	47,875	55,632	80,956
Public and member relations	70,592	54,373	115,941	97,493
Supervisory and exam expense	37,035	32,429	74,071	64,859
Insurance fund premiums	60,530	105,662	121,419	217,700
Other components of net periodic postretirement benefit cost	1,611	1,844	3,221	3,688
Other noninterest expense	89,738	66,513	166,018	143,674
Total noninterest expenses	1,852,000	1,927,483	3,868,480	3,814,296
<u>NET INCOME</u>	1,342,634	1,678,889	2,497,292	3,360,775
Other comprehensive income:				
Change in postretirement benefit plans	(1,163)	(926)	(2,326)	(1,852)
<u>COMPREHENSIVE INCOME</u>	\$ 1,341,471	\$ 1,677,963	\$ 2,494,966	\$ 3,358,923

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

Legacy Ag Credit, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings	Accumulated Other Comprehensive	Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2022	\$ 1,192,520	\$ 21,076,255	\$ 45,466,759	\$ 67,795,984
Net income			3,360,775	3,360,775
Other comprehensive income			(1,852)	(1,852)
Capital stock/participation certificates and allocated retained earnings issued	66,265			66,265
Capital stock/participation certificates and allocated retained earnings retired	(78,675)			(78,675)
Cumulative effect of CECL implementation			(74,032)	(74,032)
Patronage distributions declared:				0
Cash			(3,230,770)	(3,230,770)
Nonqualified allocations		1,781,996	(1,781,996)	-
Balance at June 30, 2023	<u>\$ 1,180,110</u>	<u>\$ 22,858,251</u>	<u>\$ 43,740,736</u>	<u>\$ 67,837,695</u>
 Balance at December 31, 2023	 \$ 1,176,510	 \$ 22,858,251	 \$ 45,738,155	 \$ 69,842,306
Net income			2,497,292	2,497,292
Other comprehensive income			(2,326)	(2,326)
Capital stock/participation certificates and allocated retained earnings issued	56,135			56,135
Capital stock/participation certificates and allocated retained earnings retired	(60,835)			(60,835)
Patronage distributions declared:				-
Cash			(3,000,008)	(3,000,008)
Nonqualified allocations		1,070,817	(1,070,817)	-
Balance at June 30, 2024	<u>\$ 1,171,810</u>	<u>\$ 23,929,068</u>	<u>\$ 44,164,622</u>	<u>\$ 69,332,564</u>

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

ASSOCIATION NEW MODEL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unaudited (dollar amounts in thousands, except per share amounts and as otherwise noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Legacy 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 Franklin, Gregg, Harrison, Hopkins, Kaufman, Marion, Rains, Upshur, Van Zandt, and Wood 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. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2024. Descriptions of the significant accounting policies are included in the 2023 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

Recently Adopted Accounting Pronouncements

In December 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-09 - Income Taxes: Improvements to Income Tax Disclosures. The amendments in this standard require more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information.

The amendments in this standard require qualitative disclosure about specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate. The amendments are effective for annual periods beginning after December 15, 2025. The adoption of this guidance is not expected to have a material impact on the association's financial condition, results of operations or cash flows.

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 — LOANS AND ALLOWANCE FOR CREDIT LOSSES ON LOANS:

A summary of loans follows:

Loan Type	June 30, 2024	December 31, 2023
	Amount	Amount
Production agriculture:		
Real estate mortgage	\$ 317,013,851	\$ 316,952,280
Production and intermediate-term	12,967,154	13,782,434
Agribusiness:		
Loans to cooperatives	2,652,931	2,567,359
Processing and marketing	15,530,377	15,356,382
Farm-related business	2,797,613	2,475,307
Communication	6,572,302	8,631,222
Energy	2,524,322	2,785,077
Water and waste-water	2,973,384	2,985,247
Rural residential real estate	10,519,341	10,237,682
Total	\$ 373,551,275	\$ 375,772,990

The association purchases or sells participation interests with other parties 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	\$ 28,175,217	\$ 9,191,027	\$ -	\$ -	\$ 28,175,217	\$ 9,191,027
Production and intermediate-term	4,684,789	-	-	-	4,684,789	-
Agribusiness	20,415,270	-	-	-	20,415,270	-
Communication	6,572,302	-	-	-	6,572,302	-
Energy	2,524,322	-	-	-	2,524,322	-
Water and waste-water	2,973,384	-	-	-	2,973,384	-
Total	\$ 65,345,285	\$ 9,191,027	\$ -	\$ -	\$ 65,345,285	\$ 9,191,027

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 \$0 and \$1,000 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 our outstanding loans, letters of credit and unfunded loan commitments. The association manages credit risk associated with the retail lending activities through an analysis of the credit risk profile of an individual borrower using its own set of underwriting standards and lending policies, approved by its board of directors, which provides direction to its loan officers. The retail credit risk management process begins with an analysis of the borrower’s credit history, repayment capacity, financial position, and collateral, which includes an analysis of credit scores for smaller loans. Repayment capacity focuses on the borrower’s ability to repay the loan based on cash flows from operations or other sources of income, including off-farm income. Real estate mortgage loans must be secured by first liens on the real estate (collateral). As required by Farm Credit Administration regulations, institutions 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% 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 as of June 30, 2024:

	Term Loans Amortized Cost by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized	Total
	2024	2023	2022	2021	2020	Prior			
June 30, 2024									
Real estate mortgage									
Acceptable	\$ 18,409,970	\$ 44,076,549	\$ 57,477,481	\$ 67,756,856	\$ 39,156,524	\$ 83,052,521	\$ -	\$ -	\$ 309,929,901
OAEM	-	146,064	1,614,593	855,431	255,059	674,464	2,147,400	-	5,693,011
Substandard/Doubtful	353,786	-	335,901	198,893	-	508,485	-	-	1,397,065
	<u>\$ 18,763,756</u>	<u>\$ 44,222,613</u>	<u>\$ 59,427,975</u>	<u>\$ 68,811,180</u>	<u>\$ 39,411,583</u>	<u>\$ 84,235,470</u>	<u>\$ 2,147,400</u>	<u>\$ -</u>	<u>\$ 317,019,977</u>
Gross charge-offs for the six months ended June 30, 2024	-	-	-	-	-	-	-	-	-
Production and intermediate-term									
Acceptable	\$ 752,071	\$ 4,024,478	\$ 301,461	\$ 126,136	\$ 106,560	\$ 303,917	\$ 7,235,137	\$ 111,420	\$ 12,961,180
OAEM	-	-	-	-	-	5,974	-	-	5,974
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>\$ 752,071</u>	<u>\$ 4,024,478</u>	<u>\$ 301,461</u>	<u>\$ 126,136</u>	<u>\$ 106,560</u>	<u>\$ 309,891</u>	<u>\$ 7,235,137</u>	<u>\$ 111,420</u>	<u>\$ 12,967,154</u>
Gross charge-offs for the six months ended June 30, 2024	-	-	-	-	-	-	-	-	-
Agribusiness									
Acceptable	\$ -	\$ 5,264,988	\$ 6,794,123	\$ 2,879,697	\$ 2,231,963	\$ 800,000	\$ 2,310,070	\$ -	\$ 20,280,841
OAEM	-	-	526,951	-	-	-	173,129	-	700,080
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ 5,264,988</u>	<u>\$ 7,321,074</u>	<u>\$ 2,879,697</u>	<u>\$ 2,231,963</u>	<u>\$ 800,000</u>	<u>\$ 2,483,199</u>	<u>\$ -</u>	<u>\$ 20,980,921</u>
Gross charge-offs for the six months ended June 30, 2024	-	-	-	-	-	-	-	-	-
Communications									
Acceptable	\$ -	\$ 2,609,051	\$ -	\$ -	\$ 3,843,268	\$ -	\$ 119,983	\$ -	\$ 6,572,302
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ 2,609,051</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,843,268</u>	<u>\$ -</u>	<u>\$ 119,983</u>	<u>\$ -</u>	<u>\$ 6,572,302</u>
Gross charge-offs for the six months ended June 30, 2024	-	-	-	-	-	-	-	-	-
Energy and Water/waste disposal									
Acceptable	\$ -	\$ 973,488	\$ -	\$ -	\$ -	\$ 4,503,536	\$ 20,682	\$ -	\$ 5,497,706
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ 973,488</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,503,536</u>	<u>\$ 20,682</u>	<u>\$ -</u>	<u>\$ 5,497,706</u>
Gross charge-offs for the six months ended June 30, 2024	-	-	-	-	-	-	-	-	-
Rural residential real estate									
Acceptable	\$ 552,177	\$ 1,334,489	\$ 2,714,302	\$ 3,136,820	\$ 1,748,706	\$ 1,026,721	\$ -	\$ -	\$ 10,513,215
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>\$ 552,177</u>	<u>\$ 1,334,489</u>	<u>\$ 2,714,302</u>	<u>\$ 3,136,820</u>	<u>\$ 1,748,706</u>	<u>\$ 1,026,721</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,513,215</u>
Gross charge-offs for the six months ended June 30, 2024	-	-	-	-	-	-	-	-	-
Total Loans									
Acceptable	\$ 19,714,218	\$ 58,283,043	\$ 67,287,367	\$ 73,899,509	\$ 47,087,021	\$ 89,686,695	\$ 9,685,872	\$ 111,420	\$ 365,755,145
OAEM	-	146,064	2,141,544	855,431	255,059	680,438	2,320,529	-	6,399,065
Substandard/Doubtful	353,786	-	335,901	198,893	-	508,485	-	-	1,397,065
	<u>\$ 20,068,004</u>	<u>\$ 58,429,107</u>	<u>\$ 69,764,812</u>	<u>\$ 74,953,833</u>	<u>\$ 47,342,080</u>	<u>\$ 90,875,618</u>	<u>\$ 12,006,401</u>	<u>\$ 111,420</u>	<u>\$ 373,551,275</u>
Total gross charge-offs for the six months ended June 30, 2024	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

Term Loans									
Amortized Cost by Origination Year									
							Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	
December 31, 2023	2023	2022	2021	2020	2019	Prior			Total
Real estate mortgage									
Acceptable	\$ 45,009,556	\$ 60,394,327	\$ 71,211,194	\$ 40,765,375	\$ 24,928,326	\$ 66,424,123	\$ -	\$ -	\$ 308,732,901
OAEM	2,646,437	1,817,210	-	262,498	-	701,228	2,147,061	-	7,574,434
Substandard/Doubtful	-	-	-	-	-	644,945	-	-	644,945
	<u>\$ 47,655,993</u>	<u>\$ 62,211,537</u>	<u>\$ 71,211,194</u>	<u>\$ 41,027,873</u>	<u>\$ 24,928,326</u>	<u>\$ 67,770,296</u>	<u>\$ 2,147,061</u>	<u>\$ -</u>	<u>\$ 316,952,280</u>
Gross charge-offs for the year ended December 31, 2023	-	-	-	-	-	-	-	-	-
Production and intermediate-term									
Acceptable	\$ 4,222,371	\$ 392,770	\$ 184,289	\$ 139,164	\$ 102,939	\$ 229,633	\$ 7,559,985	\$ 51,200	\$ 12,882,351
OAEM	891,588	-	-	-	-	8,495	-	-	900,083
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>\$ 5,113,959</u>	<u>\$ 392,770</u>	<u>\$ 184,289</u>	<u>\$ 139,164</u>	<u>\$ 102,939</u>	<u>\$ 238,128</u>	<u>\$ 7,559,985</u>	<u>\$ 51,200</u>	<u>\$ 13,782,434</u>
Gross charge-offs for the year ended December 31, 2023	-	-	-	-	-	-	-	-	-
Agribusiness									
Acceptable	\$ 5,629,304	\$ 6,859,834	\$ 3,049,716	\$ 2,244,463	\$ 800,000	\$ -	\$ 1,318,899	\$ -	\$ 19,902,216
OAEM	-	373,253	-	-	-	-	123,579	-	496,832
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>\$ 5,629,304</u>	<u>\$ 7,233,087</u>	<u>\$ 3,049,716</u>	<u>\$ 2,244,463</u>	<u>\$ 800,000</u>	<u>\$ -</u>	<u>\$ 1,442,478</u>	<u>\$ -</u>	<u>\$ 20,399,048</u>
Gross charge-offs for the year ended December 31, 2023	-	-	-	-	-	-	-	-	-
Communications									
Acceptable	\$ 3,060,056	\$ -	\$ -	\$ 5,502,741	\$ -	\$ -	\$ 68,425	\$ -	\$ 8,631,222
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>\$ 3,060,056</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,502,741</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,425</u>	<u>\$ -</u>	<u>\$ 8,631,222</u>
Gross charge-offs for the year ended December 31, 2023	-	-	-	-	-	-	-	-	-
Energy and Water/waste disposal									
Acceptable	\$ 985,772	\$ -	\$ -	\$ -	\$ -	\$ 4,631,153	\$ 153,399	\$ -	\$ 5,770,324
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>\$ 985,772</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,631,153</u>	<u>\$ 153,399</u>	<u>\$ -</u>	<u>\$ 5,770,324</u>
Gross charge-offs for the year ended December 31, 2023	-	-	-	-	-	-	-	-	-
Rural residential real estate									
Acceptable	\$ 1,383,801	\$ 2,851,696	\$ 3,138,399	\$ 1,807,092	\$ 268,521	\$ 788,173	\$ -	\$ -	\$ 10,237,682
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	<u>\$ 1,383,801</u>	<u>\$ 2,851,696</u>	<u>\$ 3,138,399</u>	<u>\$ 1,807,092</u>	<u>\$ 268,521</u>	<u>\$ 788,173</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,237,682</u>
Gross charge-offs for the year ended December 31, 2023	-	-	-	-	-	-	-	-	-
Total Loans									
Acceptable	\$ 60,290,860	\$ 70,498,627	\$ 77,583,598	\$ 50,458,835	\$ 26,099,786	\$ 72,073,082	\$ 9,100,708	\$ 51,200	\$ 366,156,696
OAEM	3,538,025	2,190,463	-	262,498	-	709,723	2,270,640	-	8,971,349
Substandard/Doubtful	-	-	-	-	-	644,945	-	-	644,945
	<u>\$ 63,828,885</u>	<u>\$ 72,689,090</u>	<u>\$ 77,583,598</u>	<u>\$ 50,721,333</u>	<u>\$ 26,099,786</u>	<u>\$ 73,427,750</u>	<u>\$ 11,371,348</u>	<u>\$ 51,200</u>	<u>\$ 375,772,990</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	97.8 %	97.4 %
OAEM	1.8 %	2.4 %
Substandard/doubtful	0.4 %	0.2 %
	<u>100.0 %</u>	<u>100.0 %</u>
Production and intermediate-term		
Acceptable	99.9 %	93.5 %
OAEM	0.1 %	6.5 %
Substandard/doubtful	- %	- %
	<u>100.0 %</u>	<u>100.0 %</u>
Agribusiness		
Acceptable	96.7 %	97.6 %
OAEM	3.3 %	2.4 %
Substandard/doubtful	- %	- %
	<u>100.0 %</u>	<u>100.0 %</u>
Energy and water/waste-water		
Acceptable	100.0 %	100.0 %
OAEM	- %	- %
Substandard/doubtful	- %	- %
	<u>100.0 %</u>	<u>100.0 %</u>
Communication		
Acceptable	100.0 %	100.0 %
OAEM	- %	- %
Substandard/doubtful	- %	- %
	<u>100.0 %</u>	<u>100.0 %</u>
Rural residential real estate		
Acceptable	100.0 %	100.0 %
OAEM	- %	- %
Substandard/doubtful	- %	- %
	<u>100.0 %</u>	<u>100.0 %</u>
Total loans		
Acceptable	97.9 %	97.4 %
OAEM	1.7 %	2.4 %
Substandard/doubtful	0.4 %	0.2 %
	<u>100.0 %</u>	<u>100.0 %</u>

Accrued interest receivable on loans of \$2,942,234 and \$2,436,348 at June 30, 2024 and December 31, 2023, respectively, have been excluded from the amortized cost of loans and reported separately in the Balance Sheet.

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

	June 30, 2024	December 31, 2023
Nonaccrual loans:		
Real estate mortgage	\$ 669,340	\$ 440,153
Total nonperforming assets	\$ 669,340	\$ 440,153
Nonaccrual loans as a percentage of total loans	0.18%	0.12%
Nonperforming assets as a percentage of capital	0.97%	0.63%

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

	June 30, 2024			Interest Income Recognized	
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	For the Three Months Ended June 30, 2024	For the Six Months Ended June 30, 2024
Nonaccrual loans:					
Real estate mortgage	\$ 49,635	\$ 619,705	\$ 669,340	\$ 67,451	\$ 70,592
Agribusiness	-	-	-	-	924
Total nonaccrual loans	\$ 49,635	\$ 619,705	\$ 669,340	\$ 67,451	\$ 71,516

	December 31, 2023			Interest Income Recognized	
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	For the Three Months Ended June 30, 2023	For the Six Months Ended June 30, 2023
Nonaccrual loans:					
Real estate mortgage	\$ -	\$ 440,261	\$ 440,261	\$ 4,247	\$ 113,357
Total nonaccrual loans	\$ -	\$ 440,261	\$ 440,261	\$ 4,247	\$ 113,357

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

	30-89 Days	90 Days	Total	Not Past Due or	Total	Recorded Investment
June 30, 2024	Past Due	or More Past Due	Past Due	Less Than 30 Days Past Due	Loans	>90 Days and Accruing
Real estate mortgage	\$ 1,722,193	\$ 19,985	\$ 1,742,178	\$ 317,868,832	\$ 319,611,010	\$ -
Production and intermediate term	-	-	-	13,120,327	13,120,327	-
Loans to cooperatives	-	-	-	2,659,244	2,659,244	-
Processing and marketing	-	-	-	15,571,467	15,571,467	-
Farm-related business	-	-	-	2,818,715	2,818,715	-
Communication	-	-	-	6,613,283	6,613,283	-
Energy	-	-	-	2,532,906	2,532,906	-
Water and waste-water	-	-	-	3,005,718	3,005,718	-
Rural residential real estate	-	-	-	10,560,839	10,560,839	-
Total	\$ 1,722,193	\$ 19,985	\$ 1,742,178	\$ 374,751,331	\$ 376,493,509	\$ -

December 31, 2023	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 2,130,621	\$ -	\$ 2,130,621	\$ 316,896,424	\$ 319,027,045	\$ -
Production and intermediate term	-	-	-	13,965,427	13,965,427	-
Loans to cooperatives	-	-	-	2,575,352	2,575,352	-
Processing and marketing	-	-	-	15,393,229	15,393,229	-
Farm-related business	-	-	-	2,493,419	2,493,419	-
Communication	-	-	-	8,664,344	8,664,344	-
Energy	-	-	-	2,795,324	2,795,324	-
Water and waste-water	-	-	-	3,017,809	3,017,809	-
Rural residential real estate	-	-	-	10,277,389	10,277,389	-
Total	<u>\$ 2,130,621</u>	<u>\$ -</u>	<u>\$ 2,130,621</u>	<u>\$ 376,078,717</u>	<u>\$ 378,209,338</u>	<u>\$ -</u>

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

Loan Modifications to Borrowers Experiencing Financial Difficulties

The following table shows the amortized cost basis 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. There were no loan modifications to borrowers experiencing financial difficulty for the same period ending 2023.

For the Three Months Ended June 30, 2024				
Combination				
	Payment		Percentage of	
	Deferral	Total	Total by Loan	Type
Real estate mortgage	\$ 353,786	\$ 353,786		0.11%
Total	\$ 353,786	\$ 353,786		0.09%
For the Six Months Ended June 30, 2024				
Combination				
	Payment		Percentage of	
	Deferral	Total	Total by Loan	Type
Real estate mortgage	\$ 353,786	\$ 353,786		0.11%
Total	\$ 353,786	\$ 353,786		0.09%

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty as of the three and six months ended June 30, 2024 and 2023 were \$1,261 and \$0, respectively.

The following tables describes the financial effect of the modifications made to borrowers experiencing financial difficulty during the three and six months ended June 30, 2024. There were no loan modifications to borrowers experiencing financial difficulty for the same periods ending 2023.

Financial Effect	
For the Three Months Ended June 30, 2024	
	Payment Deferral
Real estate mortgage	180 days

Financial Effect	
For the Six Months Ended June 30, 2024	
	Payment Deferral
Real estate mortgage	180 days

Loans that were modified during the during the three- and six-month periods ended June 30, 2024, have not experienced default as of June 30, 2024.

The following table sets forth an aging analysis of loans to borrowers experiencing financial difficulty that were modified during the three months ended June 30, 2023:

	Payment Status of Loans Modified in the		
	Past 3 Months		
	30-89 Days	90 Days or More	
	Current	Past Due	Past Due
Real estate mortgage	-	353,786	-
Total	\$ -	353,786	\$ -

The Association did not materially modify any loans borrowers experiencing financial difficulty on or after January 1, 2023, the date of adoption of Current Expected Credit Loss (CECL), through December 31, 2023.

There are no additional commitments to lend to borrowers experiencing financial difficulty whose loans have been modified during the six months ended June 30, 2024.

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	Communi- cations	Energy and Water/Waste Disposal	Rural Residentia l Real Estate	Inter- national	Total
Allowance for credit losses on loans:								
Balance at March 31, 2024	\$ (929,497)	\$ (11,183)	\$ (58,040)	\$ (27,263)	\$ (2,739)	\$ (34,963)	\$ 1	\$ (1,063,684)
Charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Recoveries	\$ -	\$ (600)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (600)
Provision for credit losses/(Credit loss reversal)	\$ (37,809)	\$ (5,832)	\$ (3,148)	\$ 13,614	\$ (823)	\$ (2,327)	\$ (1)	\$ (36,326)
Balance at June 30, 2024	\$ (967,306)	\$ (17,615)	\$ (61,188)	\$ (13,649)	\$ (3,562)	\$ (37,290)	\$ -	\$ (1,100,610)
Allowance for credit losses on unfunded commitments:								
Balance at March 31, 2024	\$ -	\$ (2,286)	\$ (17,675)	\$ (388)	\$ (7)	\$ -	\$ (4)	\$ (20,360)
Provision for unfunded commitments	\$ (340)	\$ (435)	\$ 1,971	\$ (1,201)	\$ (26)	\$ (322)	\$ 4	\$ (349)
Balance at June 30, 2024	\$ (340)	\$ (2,721)	\$ (15,704)	\$ (1,589)	\$ (33)	\$ (322)	\$ -	\$ (20,709)

	Real Estate Mortgage	Production and Intermediate- Term	Agri- business	Communi- cations	Energy and Water/Waste Disposal	Rural Residential Real Estate	Inter- national	Total
Allowance for credit losses on loans:								
Balance at December 31, 2023	\$ (940,360)	\$ (16,919)	\$ (67,755)	\$ (30,472)	\$ (21,067)	\$ (18,850)	\$ 21	\$ (1,095,402)
Charge-offs	\$ 1,094	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,094
Recoveries	\$ -	\$ (1,500)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,500)
Provision for credit losses/(Credit loss reversal)	\$ (28,040)	\$ 804	\$ 6,567	\$ 16,823	\$ (88)	\$ (868)	\$ -	\$ (4,802)
Commodity Reclassification	\$ -	\$ -	\$ -	\$ -	\$ 17,593	\$ (17,572)	\$ (21)	\$ -
Balance at June 30, 2024	\$ (967,306)	\$ (17,615)	\$ (61,188)	\$ (13,649)	\$ (3,562)	\$ (37,290)	\$ -	\$ (1,100,610)
Allowance for credit losses on unfunded commitments:								
Balance at December 31, 2023	\$ -	\$ (2,346)	\$ (20,902)	\$ (685)	\$ (19)	\$ -	\$ (19)	\$ (23,971)
Provision for unfunded commitments	\$ (340)	\$ (375)	\$ 5,197	\$ (904)	\$ (14)	\$ (322)	\$ 19	\$ 3,261
Balance at June 30, 2024	\$ (340)	\$ (2,721)	\$ (15,705)	\$ (1,589)	\$ (33)	\$ (322)	\$ -	\$ (20,710)

	Real Estate Mortgage	Production and Intermediate- Term	Agri- business	Communi- cations	Energy and Water/Waste Disposal	Rural Residential Real Estate	Inter- national	Total
Allowance for credit losses on loans:								
Balance at March 31, 2023	\$ (765,730)	\$ (27,443)	\$ (324,262)	\$ (9,478)	\$ (56,450)	\$ (25,689)	\$ (8)	\$ (1,209,060)
Transfers to/from reserve for unfunded commitments	\$ (142)	\$ (2,004)	\$ (899)	\$ (103)	\$ (6)	\$ -	\$ 63	\$ (3,091)
Charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Recoveries	\$ -	\$ (596)	\$ -	\$ -	\$ (2,942)	\$ -	\$ -	\$ (3,538)
Provision for loan losses (Credit loss reversal)	\$ 20,305	\$ 7,813	\$ 2,630	\$ (5,059)	\$ 55,888	\$ (840)	\$ (55)	\$ 80,682
Balance at June 30, 2023	\$ (745,567)	\$ (22,230)	\$ (322,531)	\$ (14,640)	\$ (3,510)	\$ (26,529)	\$ -	\$ (1,135,007)
Allowance for credit losses on unfunded commitments:								
Balance at March 31, 2023	\$ (219)	\$ (4,196)	\$ (17,834)	\$ (617)	\$ (9)	\$ -	\$ -	\$ (22,875)
Provision for unfunded commitments	\$ 142	\$ 2,004	\$ 899	\$ 103	\$ 6	\$ -	\$ (63)	\$ 3,092
Balance at June 30, 2023	\$ (77)	\$ (2,192)	\$ (16,935)	\$ (514)	\$ (3)	\$ -	\$ (63)	\$ (19,783)

	Real Estate Mortgage	Production and Intermediate- Term	Agri- business	Communi- cations	Energy and Water/Waste Disposal	Rural Residential Real Estate	Inter- national	Total
Allowance for credit losses on loans:								
Balance at December 31, 2022	\$ (863,646)	\$ (16,578)	\$ (297,202)	\$ (3,060)	\$ (55,522)	\$ (7,340)	\$ -	\$ (1,243,348)
Cumulative effect of a change in accounting principle	\$ 38,313	\$ (14,684)	\$ (33,954)	\$ (5,719)	\$ (1,151)	\$ (17,593)	\$ -	\$ (34,788)
Balance at January 1, 2023	\$ (825,333)	\$ (31,262)	\$ (331,156)	\$ (8,779)	\$ (56,673)	\$ (24,933)	\$ -	\$ (1,278,136)
Transfers to/from reserve for unfunded commitments	\$ (280)	\$ (4,519)	\$ (14,561)	\$ (128)	\$ (16)	\$ -	\$ 42	\$ (19,461)
Charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Recoveries	\$ -	\$ (1,800)	\$ -	\$ -	\$ (2,942)	\$ -	\$ -	\$ (4,742)
Provision for loan losses (Credit loss reversal)	\$ 80,049	\$ 15,349	\$ 23,185	\$ (5,732)	\$ 56,119	\$ (1,596)	\$ (43)	\$ 167,332
Balance at June 30, 2023	\$ (745,564)	\$ (22,231)	\$ (322,532)	\$ (14,640)	\$ (3,511)	\$ (26,529)	\$ (0)	\$ (1,135,007)
Allowance for credit losses on unfunded commitments:								
Balance at December 31, 2022	\$ (358)	\$ (6,710)	\$ (31,495)	\$ (642)	\$ (18)	\$ -	\$ (21)	\$ (39,244)
Cumulative effect of a change in accounting principle	\$ (358)	\$ (6,710)	\$ (31,495)	\$ (642)	\$ (18)	\$ -	\$ (21)	\$ (39,244)
Balance at January 1, 2023	\$ (358)	\$ (6,710)	\$ (31,495)	\$ (642)	\$ (18)	\$ -	\$ (21)	\$ (39,244)
Provision for unfunded commitments	\$ 280	\$ 4,519	\$ 14,561	\$ 128	\$ 16	\$ -	\$ (42)	\$ 19,461
Balance at June 30, 2023	\$ (78)	\$ (2,191)	\$ (16,934)	\$ (514)	\$ (2)	\$ -	\$ (63)	\$ (19,783)

Discussion of Changes in Allowance for Credit Losses (ACL)

The ACL increased \$1,947 to \$1,121,320 at June 30, 2024, as compared to \$1,119,373 at December 31, 2023, primarily due to updates to the District Probability of Default (PD) Curve offset by a decrease in loan volume.

NOTE 3 — 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 an 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

	Regulatory Minimums with Buffer	As of June 30, 2024
Risk-adjusted:		
Common equity tier 1 ratio	7.00%	18.38%
Tier 1 capital ratio	8.50%	18.38%
Total capital ratio	10.50%	18.70%
Permanent capital ratio	7.00%	18.44%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.00%	16.40%
UREE leverage ratio	1.50%	16.10%

The details for the amounts used in the calculation of the regulatory capital ratios as of June 30, 2024:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	43,195,527	43,195,527	43,195,527	43,195,527
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	1,165,516	1,165,516	1,165,516	1,165,516
Nonqualified allocated equities not subject to retirement	23,929,068	23,929,068	23,929,068	23,929,068
Allowance for loan losses and reserve for credit losses subject to certain limitations			1,094,376	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(6,426,751)	(6,426,751)	(6,426,751)	(6,426,751)
	61,863,360	61,863,360	62,957,736	61,863,360
Denominator:				
Risk-adjusted assets excluding allowance	343,064,789	343,064,789	343,064,789	343,064,789
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(6,426,751)	(6,426,751)	(6,426,751)	(6,426,751)
Allowance for loan losses				(1,074,004)
	336,638,038	336,638,038	336,638,038	335,564,034
Calculated Ratio	18.38%	18.38%	18.70%	18.44%

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	43,195,527	43,195,527
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	1,165,516	-
Nonqualified allocated equities not subject to retirement	23,929,068	23,929,068
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(6,426,751)	(6,426,751)
	61,863,360	60,697,844
Denominator:		
Total Assets	383,943,893	383,943,893
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(6,828,150)	(6,828,150)
	377,115,743	377,115,743
Calculated Ratio	16.40%	16.10%

	<u>June 30, 2024</u>	<u>December 31, 2023</u>
Capital stock and participation certificates	\$ 1,171,810	\$ 1,176,510
Accumulated other comprehensive loss	67,064	69,390
Retained earnings ¹	68,093,690	68,596,406
Total Capital	\$ 69,332,564	\$ 69,842,306

¹ Retained earnings for the quarter ended March 31, 2024, reflects a decrease from the cumulative effect of a change in accounting principle for CECL on January 1, 2023.

The following tables present the activity in the accumulated other comprehensive loss, net of tax by component:

June 30, 2024	<u>Before Tax</u>	<u>Deferred Tax</u>	<u>Net of Tax</u>
Nonpension postretirement benefits	\$ 67,064	\$ -	\$ 67,064
 June 30, 2023	 <u>Before Tax</u>	 <u>Deferred Tax</u>	 <u>Net of Tax</u>
Nonpension postretirement benefits	\$ 58,598	\$ -	\$ 58,598

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 reflected in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income (loss) for the six months ended June 30:

	<u>2024</u>	<u>2023</u>
Accumulated other comprehensive income (loss) at January 1	\$ 69,390	\$ 60,450
Amortization of prior service (credit) costs included in salaries and employee benefits	(783)	(783)
Amortization of actuarial (gain) loss included in salaries and employee benefits	(1,543)	(1,069)
Other comprehensive income (loss), net of tax	(2,326)	(1,852)
Accumulated other comprehensive income (loss) at June 30	\$ 67,064	\$ 58,598

NOTE 4 — INCOME TAXES:

Legacy conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly owned Federal Land Credit Association ("FLCA") subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly owned Production Credit Association ("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 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.

NOTE 5 — 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 12 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			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ -	\$ -
December 31, 2023	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ -	\$ -

At December 31, 2023, there were no impaired loans with specific reserves, and at June 30, 2024, there was one loan with a specific reserve equal to the recorded investment of that loan, netting to zero balances in the above table.

Information about Fair Value Measurements

Regarding 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 12 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 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 FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases, it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Cash

For cash, the carrying amount is a reasonable estimate of fair value.

Loans

Fair value is estimated by discounting the expected future cash flows using the association's current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the association's current loan origination rates as well as management's estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

For purposes of estimating fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the three and six months ended June 30, 2024:

	Other Benefits	
	2024	2023
Three months ended June 30:		
Service cost	\$ 924	\$ 862
Interest cost	2,773	2,769
Amortization of prior service (credits) costs	(392)	(391)
Amortization of net actuarial (gain) loss	(771)	(535)
Net periodic benefit cost	\$ 2,534	\$ 2,705
	Other Benefits	
	2024	2023
Six months ended June 30:		
Service cost	\$ 1,849	\$ 1,723
Interest cost	5,546	5,539
Amortization of prior service (credits) costs	(783)	(783)
Amortization of net actuarial (gain) loss	(1,543)	(1,069)
Net periodic benefit cost	\$ 5,069	\$ 5,410

The association's liability for the unfunded accumulated obligation for these benefits at June 30, 2024, was \$208,042 and is included in other liabilities on 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 statement.

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 \$8,725 to the district's defined benefit pension plan in 2024. As of June 30, 2024, \$4,363 of contributions have been made. The association presently anticipates contributing an additional \$4,362 to fund the defined benefit pension plan in 2024 for a total of \$8,725.

NOTE 7 — 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 8 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through July 30, 2024, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of this date.