CAPITAL FARM CREDIT

PROUD MEMBER OF THE FARM CREDIT SYSTEM

# Quarterly Report
# To Stockholders

For the Quarter Ended June 30, 2024

**REPORT OF MANAGEMENT**

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 our knowledge and belief.

Jeff Norte,
Chief Executive Officer

John Malazzo,
Chairman, Board of Directors

Sally Lawson,
Chief Financial Officer

August 9, 2024

# *Second Quarter 2024 Financial Report*

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## MANAGEMENT'S DISCUSSION AND ANALYSIS
## OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
### (Dollars in thousands)

The following commentary reviews the financial performance of Capital Farm Credit, ACA, referred to as the association, for the quarter ended June 30, 2024. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2023 Annual Report to Stockholders. The association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned 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, Capital Farm Credit, PCA and Capital Farm Credit, FLCA. The consolidated financial statements were prepared under the oversight of the association's audit committee.

Agriculture conditions have generally improved in Texas due to spring rains increasing yields for wheat and corn in many parts of the state. However, producers continue to be challenged with volatile commodity prices, high input costs and changing weather conditions. Cattle prices continue to be at record highs creating demand for cattle loans. Real land values including irrigated, dryland and ranchland have increased in the second quarter signaling continue demand for rural land. Hurricane Beryl traveled up through east Texas, impacting crops, homes and agricultural infrastructure in its path. The association continues to work with those impacted by the storm. There was no material impact to the association.

The Federal Open Market Committee continues to hold the Federal Funds Rate in the range of 5.25 percent to 5.50 percent. The committee would like to see a sustained downward trend in inflation toward 2.0 percent before loosening policy. The Texas economy continues to be resilient with job growth outpacing the national average by 0.9 percent and exports increasing accounting for 22 percent of U.S. exports.

**Rating Agency Actions**

*Fitch Ratings Actions*
On December 20, 2023, Fitch reaffirmed the association's "BBB" with a stable outlook rating.

*S&P Global Rating Actions*
On December 8, 2023, S&P reaffirmed the association's "BBB" with a stable outlook rating.

**Corporate Headquarters**

In July 2023, the association purchased a building in College Station, Texas. The association expects to complete renovations and relocate its corporate headquarters and credit office to the new building during the second half of 2024.

**Patronage Refunds by Association**

The board of directors approved a $243,498 patronage distribution for 2023. Of that amount, $118,791 of this distribution was paid in cash in March 2024, and $124,707 will be distributed in the form of nonqualified allocated equity, which means the owners of these distributions will not pay federal income taxes until the equities are retired. It is the board's intention with these allocations to assign ownership of the earnings of the association, allowing the stockholders to benefit more fully from the earnings of the association and to create a method to make future equity distributions in the form of cash. Though there is not a planned retirement of these allocated equities, the board of directors will make an annual evaluation of the association's capital position and determine if some cash retirements of these equities can be made. In 2022, the board of directors approved a $270,028 patronage distribution, with cash patronage payable of $127,595 and $142,433 in nonqualified allocations. In March 2023, the association finalized the computation of these distributions, which resulted in an increase in cash patronage payable of $1 for an actual cash distribution of $127,596, and a decrease of nonqualified allocated equities of $1 for a final allocation of $142,432.

In October 2023, the board of directors approved a resolution to retire $70,065 in nonqualified allocated equities, which were paid to the recipients in November 2023. The retirement was a distribution of all earnings allocated in 2014. In September 2022, the board of directors approved a resolution to retire $59,747 in nonqualified allocated equities which was paid to the recipients in November 2022. The retirement was a distribution of the remaining earnings allocated in 2013.

**Loan Portfolio**

Total loans outstanding at June 30, 2024, including nonperforming loans, were $12,478,234 compared to $12,121,901 at December 31, 2023, reflecting an increase of $356,333, or approximately 2.9 percent, with increases in the real estate mortgage, farm-related business, production and intermediate term, and energy, offset by decreases in communication, rural residential real estate, water and waste disposal, lease receivable, and mission-related investments industries. The association experienced moderate growth during the first half of 2024.

The association's portfolio quality remains strong with credit quality of 96.8 percent acceptable at June 30, 2024, compared to 97.3 percent at December 31, 2023. Substandard loans increased slightly from 1.0 percent at December 31, 2023 to 1.2 percent at June 30, 2024, and other assets especially mentioned increased from 1.7 percent at December 31, 2023 to 2.0 percent at June 30, 2024. The association recorded $941 in recoveries and $9,232 in charge-offs for the six months ended June 30, 2024, and $192 in recoveries and $2,535 in charge-offs for the same period in 2023. The charge-offs in 2024 were primarily related to one relationship. The association's allowance for loan losses was 0.2 percent of total loans outstanding as of June 30, 2024, and at December 31, 2023.

**Risk Exposure**

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

| | June 30, 2024 | | % | December 31, 2023 | | % |
|---|---|---|---|---|---|---|
| Nonaccrual loans | **$** | **32,012** | **42.4** | $ | 36,009 | 60.8 |
| Loans 90 days past due and still accruing interest | | **24,222** | **32.0** | | - | - |
| Other property owned, net | | **19,370** | **25.6** | | 23,177 | 39.2 |
| Total | **$** | **75,604** | **100.0** | $ | 59,186 | 100.0 |

Nonaccrual loans decreased $3,997 during the six months ended June 30, 2024, with decreases in farm-related business, production and intermediate-term, and energy industries, partially offset by increases in the real estate mortgage and rural residential real estate industries. Nonaccrual loans were 0.3 percent of total loans outstanding at June 30, 2024 and at December 31, 2023.

Loans that are 90 or more days past due and still accruing interest increased $24,222 in the six months ended June 30, 2024 in the farm-related business and production and intermediate-term industries. These loans have a documented plan that details how and when the amount owed will be paid.

Other property owned decreased $3,807 during the first six months of 2024. The association is actively working with real estate professionals to ensure properties are accurately valued on the association's books and that proactive marketing activities are in place.

Management also continues to routinely evaluate and monitor counterparty and collateral risks in an effort to avoid concentrations that could result in excess exposure to a single counterparty or type of collateral. The loan portfolio management practices that are in place have been designed to ensure loans and industries with actual or potential problems are promptly identified, monitored and addressed in a manner that allows the lending staff to work with distressed customers and industries through periods of adversity.

**Results of Operations**

The association had net income of $142,157 and $71,330 for the six and three months ended June 30, 2024, compared to net income of $148,365 and $71,858 for the same periods in 2023, reflecting decreases of $6,208 and $528 or 4.2 percent and 0.7 percent, respectively. The decrease in net income for the six month period ended June 30, 2024, was primarily attributable to an increase in interest expense of $45,598 or 26.5 percent, an increase in provision for loan losses of $2,481 or 42.3 percent, and a decrease in noninterest income of $11,412 or 21.9 percent, offset by an increase in interest income of $53,190 or 15.5 percent for the same period in the prior year. The decrease in net income for the three month period ended June 30, 2024, was attributable to a decrease in noninterest income of $3,271 or 15.0 percent, an increase in interest expense of $22,796 or 25.6 percent, and an increase in operating expenses of $852 or 2.6 percent, offset by an increase in interest income of $26,016 or 14.8 percent, a decrease in provision for credit losses of $374 or 13.5 percent compared to the same period of 2023.

Net interest income was $179,206 and $89,371 for the six and three months ended June 30, 2024, compared to $171,614 and $86,151 for the same periods in 2023, respectively, reflecting an increase of $7,592 and $3,220 or 4.4 percent and 3.7 percent, respectively. Interest income for the six and three months ended June 30, 2024, increased by $53,190 and $26,016 or 15.5 or 14.8 percent, respectively, from the same periods of 2023, primarily as a result of an increase in average earning assets of $644,919 for the six month period ended June 30, 2024, and an increase in interest rates. Interest expense for the six and three months ended June 30, 2024, increased by $45,598 and $22,796 or 26.5 and 25.6 percent, respectively, from the same periods of 2023, due to an increase in the direct note and an increase in interest rates.

The effects of changes in average volume and interest rates on net interest income in the six months ended June 30, 2024, as compared with the corresponding period of the prior year, are presented in the following tables:

| | **For the six months ended June 30, 2024** | | For the six months ended June 30, 2023 | |
|---|---|---|---|---|
| | **Average Balance** | **Interest** | Average Balance | Interest |
| Accrual loans and investments | **$ 12,239,749** | **$ 396,772** | $ 11,594,830 | $ 343,582 |
| Interest-bearing liabilities | **10,698,622** | **217,566** | 10,029,592 | 171,968 |
| Impact of capital | **$ 1,541,127** | | $ 1,565,238 | |
| Net interest income | | **$ 179,206** | | $ 171,614 |

| | **Average Yield** | Average Yield |
|---|---|---|
| Yield on loans | **6.52%** | 5.98% |
| Cost of interest-bearing Liabilities | **4.09%** | 3.46% |
| Net interest spread | **2.43%** | 2.52% |
| Net interest income as a percentage of average earning assets | **2.94%** | 2.98% |

| | **For the six months ended 2024 vs. 2023 — Increase (decrease) due to** | | |
|---|---|---|---|
| | **Volume** | **Rate** | **Total** |
| Interest income | **$ 19,164** | **$ 34,026** | **$ 53,190** |
| Interest expense | **11,503** | **34,095** | **45,598** |
| Net interest income | **$ 7,661** | **$ (69)** | **$ 7,592** |

The association’s noninterest income for the six and three months ended June 30, 2024, decreased $11,412 and $3,271 or 21.9 percent and 15.0 percent, respectively, from the same periods in 2023. The decrease in the six months ended June 30, 2024, is primarily a result of a decrease in the accrual of patronage from the bank of $13,974 or 39.0 percent, as a result of the removal of patronage on the association’s stock investment in the bank and a decrease in the expected patronage on the association’s direct note, compared to the same period of 2023. The decrease in the three months ended June 30, 2024, is primarily a result of a decrease in the accrual of patronage from the bank of $6,939 or 38.6 percent, offset by increases in the other categories in noninterest income.

Noninterest expenses for the six and three months ended June 30, 2024, decreased by $93 or 0.1 percent and increased by $852 or 2.6 percent, respectively, from the same periods of 2023. The decrease in the six month period is primarily driven by a decrease in insurance fund premiums as a result of lower rates of $3,533 or 41.2 percent, a decrease in advertising expenses of $219 or 9.1 percent, a decrease in public and member relations of $20 or 0.8 percent, and a decrease in communications expenses of $49 or 7.9 percent, offset by slight increases in all other operating expense categories. The increase in the three month period is primarily driven by an increase in salaries and employee benefits of $508 or 2.4 percent, an increase in occupancy and equipment of $698 or 46.6 percent, and an increase in purchased services of $948 or 169.0 percent, mainly offset by a decrease in insurance fund premiums of $1,605 or 38.4 percent for the same period of 2023.

The association’s return on average assets for the six months ended June 30, 2024 was 2.3 percent and 2.5 percent for the same period of 2023. The association’s return on average equity for the six months ended June 30, 2024, was 15.2 percent, compared to 16.6 percent for the same period in 2023.

**Liquidity and Funding Sources**

The association secures the majority of its lendable funds from the bank, which obtains its funds through the issuance of System-wide obligations. The following schedule summarizes the association’s borrowings.

| | **June 30, 2024** | December 31, 2023 |
|---|---|---|
| Note payable to the bank | **$10,937,539** | $10,524,700 |
| Accrued interest on note payable | **37,663** | 34,372 |
| Total | **$10,975,202** | $10,559,072 |

The association operates under a general financing agreement (GFA) with the bank. The current GFA is effective through September 30, 2026. The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of $10,937,539 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 4.3 percent at June 30, 2024. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by the GFA. The increase in note payable to the bank since December 31, 2023, is due to the association's increase in loan volume and the distribution of the 2023 patronage refund. The increase in accrued interest on the note payable is the result of the increase in the interest rate from 4.0 percent at December 31, 2023 to 4.3 percent at June 30, 2024 and an increase in the direct note. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were $1,541,462 at June 30, 2024. The maximum amount the association may borrow from the bank as of June 30, 2024, was $12,381,796 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, which is September 30, 2026, unless sooner terminated by the bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the bank 120 days' prior written notice.

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

**Capital Resources and Regulatory Matters**

The association's capital position increased by $137,237 or 7.6 percent at June 30, 2024, compared to December 31, 2023 primarily as a result of net earnings for the period offset by dividend payments. The association's debt as a percentage of members' equity was 5.72:1 as of June 30, 2024, compared to 6.01:1 percent as of December 31, 2023. Farm Credit Administration regulations require the association to maintain minimums for various regulatory capital ratios. The 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 regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio remains in effect, with some modifications to align with the new regulations. As of June 30, 2024, the association exceeded all regulatory capital requirements. For more information, see Note 4-"Members Equity" in the accompanying financial statements.

**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 Capital Farm Credit more fully describe the association's relationship with the bank.

The annual and quarterly stockholder reports of the bank are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. The annual and quarterly stockholder reports for the bank are also available on its website at *www.farmcreditbank.com.*

The association's annual and quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Capital Farm Credit, ACA, P.O. Box 488, Hondo, Texas 78861 or calling (830) 426-4589. Copies of the association's quarterly and annual stockholder reports are also available on its website at *www.capitalfarmcredit.com* or can be requested by emailing *Javier.Lemus@capitalfarmcredit.com*.

**CAPITAL FARM CREDIT, ACA**
**CONSOLIDATED BALANCE SHEETS**
**(Dollars in thousands)**

| | June 30, 2024 (Unaudited) | December 31, 2023 (Audited) |
|---|---|---|
| **ASSETS** | | |
| Loans | $ 12,478,234 | $ 12,121,901 |
| Less: Allowance for losses | (30,135) | (30,106) |
| Net Loans | 12,448,099 | 12,091,795 |
| Accrued interest receivable | 113,683 | 108,578 |
| Investment in and receivable from the bank: | | |
| Capital stock | 204,448 | 204,642 |
| Receivable | 29,104 | 23,531 |
| Investment in Rural Business Investment Company (RBIC) | 9,325 | 12,581 |
| Investments in other Farm Credit Institutions | 34,208 | 29,304 |
| Other property owned, net | 19,370 | 23,177 |
| Premises and equipment, net | 84,267 | 69,070 |
| Right of use asset - leases | 6,272 | 6,542 |
| Other assets | 50,978 | 19,704 |
| Total assets | $ 12,999,754 | $ 12,588,924 |
| **LIABILITIES** | | |
| Note payable to the bank | $ 10,937,539 | $ 10,524,700 |
| Advanced conditional payments | 10,583 | 10,310 |
| Accrued interest payable | 37,663 | 34,372 |
| Lease liabilities | 6,621 | 6,813 |
| Drafts outstanding | 725 | 555 |
| Patronage distributions payable | 7 | 118,797 |
| Unfunded post retirement medical obligations | 22,196 | 21,925 |
| Reserve for unfunded commitments | 446 | 415 |
| Other liabilities | 50,276 | 74,576 |
| Total liabilities | 11,066,056 | 10,792,463 |
| **MEMBERS' EQUITY** | | |
| Capital stock and participation certificates | 28,210 | 28,018 |
| Preferred stock | 200,000 | 200,000 |
| Non-qualified allocated retained earnings | 940,472 | 940,473 |
| Unallocated retained earnings | 762,276 | 625,119 |
| Accumulated other comprehensive income | 2,740 | 2,851 |
| Total members' equity | 1,933,698 | 1,796,461 |
| Total liabilities and members' equity | $ 12,999,754 | $ 12,588,924 |

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

**CAPITAL FARM CREDIT, ACA**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**(dollars in thousands)**
**(UNAUDITED)**

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | June 30, 2024 | June 30, 2023 | June 30, 2024 | June 30, 2023 |
| **Interest Income** | | | | |
| Total interest income | **$ 201,385** | $ 175,369 | **$ 396,772** | $ 343,582 |
| **Interest Expense** | | | | |
| Note Payable to the bank | **111,923** | 89,153 | **217,383** | 171,837 |
| Advance conditional payments | **91** | 65 | **183** | 131 |
| Total interest expense | **112,014** | 89,218 | **217,566** | 171,968 |
| Net interest income | **89,371** | 86,151 | **179,206** | 171,614 |
| **Provision for Loan Losses** | | | | |
| Provision for loan losses | **2,392** | 2,766 | **8,351** | 5,870 |
| Net interest income after provision for losses | **86,979** | 83,385 | **170,855** | 165,744 |
| **Noninterest Income** | | | | |
| Patronage income from the bank | **11,031** | 17,970 | **21,899** | 35,873 |
| Loan fees | **2,260** | 1,558 | **4,291** | 2,943 |
| Financially related services income | **1,449** | 462 | **1,668** | 694 |
| Gain on sale of premises and equipment, net | **792** | 286 | **1,042** | 757 |
| Gain on other property owned, net | **167** | - | **-** | 516 |
| Other noninterest income | **2,811** | 1,505 | **11,828** | 11,357 |
| Total noninterest income | **18,510** | 21,781 | **40,728** | 52,140 |
| **Noninterest Expense** | | | | |
| Salaries and employee benefits | **21,595** | 21,087 | **43,299** | 43,074 |
| Insurance fund premium | **2,572** | 4,177 | **5,052** | 8,585 |
| Occupancy and equipment | **2,195** | 1,497 | **4,551** | 3,431 |
| Purchased services | **1,509** | 561 | **2,492** | 1,993 |
| Public and member relations | **1,173** | 1,032 | **2,334** | 2,354 |
| Advertising | **1,067** | 1,218 | **2,195** | 2,414 |
| Travel | **1,058** | 1,110 | **1,827** | 1,759 |
| Business insurance expense | **10** | 44 | **1,484** | 1,334 |
| Data processing | **599** | 494 | **1,395** | 1,055 |
| Supervisory and exam expense | **685** | 606 | **1,369** | 1,213 |
| Training | **693** | 311 | **1,194** | 445 |
| Director's expense | **363** | 388 | **770** | 696 |
| Communications | **305** | 328 | **571** | 620 |
| Loss on other property owned, net | **-** | 154 | **254** | - |
| Other noninterest expenses | **334** | 299 | **640** | 547 |
| Total noninterest expenses | **34,158** | 33,306 | **69,427** | 69,520 |
| Income before income tax | **71,331** | 71,860 | **142,156** | 148,364 |
| Provision for (benefit from) income taxes | **1** | 2 | **(1)** | (1) |
| Net income | **$ 71,330** | $ 71,858 | **$ 142,157** | $ 148,365 |
| Other comprehensive (loss) | | | | |
| Change in postretirement benefit plans | **(55)** | (73) | **(111)** | (147) |
| Income tax expense related items of other comprehensive income | **-** | - | **-** | - |
| Other comprehensive (loss), net of tax | **(55)** | (73) | **(111)** | (147) |
| **COMPREHENSIVE INCOME** | **$ 71,275** | $ 71,785 | **$ 142,046** | $ 148,218 |

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

**CAPITAL FARM CREDIT, ACA**
**CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY**
**(Dollars in thousands)**
**(UNAUDITED)**

| | Capital Stock/ Participation Certificates | Preferred Stock | Retained Earnings: Non-qualified Allocated | Retained Earnings: Unallocated | Accumulated Other Comprehensive Income (Loss) | Total Members' Equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2022 | $ 28,337 | $ 200,000 | $ 885,831 | $ 610,986 | $ 3,193 | $ 1,728,347 |
| Cumulative effect of implementation of CECL | | | | $ (2,684) | | $ (2,684) |
| Balance at January 1, 2023 | $ 28,337 | $ 200,000 | $ 885,831 | $ 608,302 | $ 3,193 | $ 1,725,663 |
| Net income | - | - | - | 148,365 | - | 148,365 |
| Other comprehensive income | - | - | - | - | (147) | (147) |
| Capital stock/participation certificates issued | 1,737 | - | - | - | - | 1,737 |
| Capital stock/participation certificates/ allocated equities retired | (2,003) | - | - | - | - | (2,003) |
| Preferred stock dividends | - | - | - | (5,000) | - | (5,000) |
| Change in patronage declared and paid | - | - | (1) | - | - | (1) |
| Balance at June 30, 2023 | 28,071 | 200,000 | 885,830 | 751,667 | 3,046 | 1,868,614 |
| Net income | - | - | - | 121,951 | - | 121,951 |
| Other comprehensive income | - | - | - | - | (195) | (195) |
| Capital stock/participation certificates issued | 1,436 | - | - | - | - | 1,436 |
| Capital stock/participation certificates/ allocated equities retired | (1,489) | - | (70,065) | - | - | (71,554) |
| Preferred stock dividends | - | - | - | (5,000) | - | (5,000) |
| Patronage distributions declared: | | | | | | |
| Cash | - | - | - | (118,791) | - | (118,791) |
| Nonqualifed allocations | - | - | 124,707 | (124,707) | - | - |
| Change in patronage declared and paid | - | - | 1 | (1) | - | - |
| Balance at December 31, 2023 | **28,018** | **200,000** | **940,473** | **625,119** | **2,851** | **1,796,461** |
| Net income | **-** | **-** | **-** | **142,157** | **-** | **142,157** |
| Other comprehensive loss | **-** | **-** | **-** | **-** | **(111)** | **(111)** |
| Capital stock/participation certificates issued | **1,749** | **-** | **-** | **-** | **-** | **1,749** |
| Capital stock/participation certificates/ allocated equities retired | **(1,557)** | **-** | **-** | **-** | **-** | **(1,557)** |
| Preferred stock dividends | **-** | **-** | **-** | **(5,000)** | **-** | **(5,000)** |
| Change in patronage declared and paid | **-** | **-** | **(1)** | **-** | **-** | **(1)** |
| **Balance at June 30, 2024** | **$ 28,210** | **$ 200,000** | **$ 940,472** | **$ 762,276** | **$ 2,740** | **$ 1,933,698** |

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

**CAPITAL FARM CREDIT, ACA**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(Dollars in thousands)**
**(UNAUDITED)**

## NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Capital Farm Credit, ACA including its wholly owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA, (collectively called the "association"), is a member-owned cooperative which provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes in 192 counties in the state of Texas. The association is a lending institution of the Farm Credit System (System) which was established by acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act), 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. Certain amounts in the prior period's financial statements have been reclassified to the current period's financial statement presentation.

**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 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.

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 LOAN LOSSES:

A summary of loans follows:

| Industry | June 30, 2024 | % | December 31, 2023 | % |
|---|---|---|---|---|
| Real estate mortgage | **$ 9,080,104** | **72.8** | $ 8,830,351 | 72.9 |
| Production and intermediate term | **1,723,696** | **13.8** | 1,711,271 | 14.1 |
| Farm-related business | **1,142,929** | **9.2** | 1,063,487 | 8.8 |
| Communication | **197,336** | **1.6** | 211,603 | 1.7 |
| Energy | **182,942** | **1.4** | 144,451 | 1.2 |
| Rural residential real estate | **80,075** | **0.6** | 86,726 | 0.7 |
| Water and waste disposal | **50,747** | **0.4** | 51,751 | 0.4 |
| Lease receivables | **18,755** | **0.2** | 20,532 | 0.2 |
| Mission-related investments | **1,650** | **0.0** | 1,729 | 0.0 |
| Total | **$ 12,478,234** | **100.0** | $ 12,121,901 | 100.0 |

At June 30, 2024, the association held two transactions, which are reported as loans on the consolidated balance sheet totaling $1,650 and with $0 in remaining commitments extended under the Rural America Bond Program approved by the FCA. The program is designed to meet the growing and changing needs of agricultural enterprises, agribusinesses and rural communities by providing investment in rural areas.

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 loans as presented on the balance sheet. The association held $70,122 and $80,752 in funds which were netted against the loan balance at June 30, 2024 and December 31, 2023, respectively. Unrestricted advance conditional payments are included in liabilities. ACPs are not insured, and interest is generally paid by the association on such balances. Balances of ACPs were $10,583 and $10,310 on the balance sheet at June 30, 2024 and December 31, 2023, respectively.

The association purchases or sells participation interests in loans with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following table presents information regarding the balances of participations purchased and sold as of June 30, 2024:

| | Other Farm Credit Institutions | | Non-Farm Credit Institutions | | Total | |
|---|---|---|---|---|---|---|
| | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold |
| Real estate mortgage | $ 319,820 | $ 1,367,989 | $ - | $ - | $ 319,820 | $ 1,367,989 |
| Production and Intermediate-term | 812,928 | 1,263,583 | 1,693 | 11,538 | 814,621 | 1,275,121 |
| Farm-related business | 835,040 | 145,104 | 802 | - | 835,842 | 145,104 |
| Communication | 197,336 | - | - | - | 197,336 | - |
| Energy | 182,942 | - | - | - | 182,942 | - |
| Water and waste disposal | 50,747 | - | - | - | 50,747 | - |
| Lease receivables | 18,755 | - | - | - | 18,755 | - |
| Mission-related investments | 1,650 | - | - | - | 1,650 | - |
| Total | $ 2,419,218 | $ 2,776,676 | $ 2,495 | $ 11,538 | $ 2,421,713 | $ 2,788,214 |

**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, 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 and the loss given default.

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 related amortized cost loan balance as of :

| | Term Loans by Origination Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **June 30, 2024** | 2024 | 2023 | 2022 | 2021 | 2020 | Prior | Revolving Loans | Revolving Loans Converted to Term Loans | Total | June 30, 2024 |
| **Real estate mortgage** | | | | | | | | | | |
| Acceptable | $ 730,952 | $ 1,078,632 | $ 1,397,091 | $ 2,257,566 | $ 1,309,157 | $ 2,092,474 | $ 264 | $ 60,114 | $ 8,926,250 | 98.3% |
| OAEM | 3,763 | 13,985 | 8,212 | 12,086 | 22,337 | 32,591 | - | 161 | 93,135 | 1.0% |
| Substandard/Doubtful | 2,911 | 2,822 | 10,335 | 12,020 | 9,203 | 19,585 | 3,843 | - | 60,719 | 0.7% |
| Total | $ 737,626 | $ 1,095,439 | $ 1,415,638 | $ 2,281,672 | $ 1,340,697 | $ 2,144,650 | $ 4,107 | $ 60,275 | $ 9,080,104 | 100.0% |
| Current period gross charge-offs | - | 4 | 5 | 80 | 1 | 13 | - | - | 103 | |
| **Production and intermediate-term** | | | | | | | | | | |
| Acceptable | 130,591 | 196,643 | 164,777 | 105,198 | 30,092 | 104,653 | 883,672 | 15,827 | 1,631,453 | 94.6% |
| OAEM | 1,113 | 6,521 | 1,002 | 116 | 316 | 769 | 38,208 | - | 48,045 | 2.8% |
| Substandard/Doubtful | 2,546 | 1,252 | 818 | 969 | 1,095 | 1,248 | 36,270 | - | 44,198 | 2.6% |
| Total | 134,250 | 204,416 | 166,597 | 106,283 | 31,503 | 106,670 | 958,150 | 15,827 | 1,723,696 | 100.0% |
| Current period gross charge-offs | - | - | - | 13 | - | 1 | 150 | - | 164 | |
| **Farm-related business** | | | | | | | | | | |
| Acceptable | 42,116 | 137,855 | 199,170 | 141,123 | 62,156 | 101,720 | 298,181 | 36,015 | 1,018,336 | 89.1% |
| OAEM | - | - | 1,154 | 16,607 | 14,331 | 27,044 | 24,686 | 345 | 84,167 | 7.4% |
| Substandard/Doubtful | - | 2,845 | - | 9,409 | 16,944 | 4,924 | 6,304 | - | 40,426 | 3.5% |
| Total | 42,116 | 140,700 | 200,324 | 167,139 | 93,431 | 133,688 | 329,171 | 36,360 | 1,142,929 | 100.0% |
| Current period gross charge-offs | - | 49 | - | 5,623 | - | - | 3,282 | - | 8,954 | |
| **Communication** | | | | | | | | | | |
| Acceptable | 9,364 | 32,407 | 32,163 | 67,071 | 9,873 | 21,415 | 7,869 | - | 180,162 | 91.3% |
| OAEM | 1,753 | - | 14,726 | - | - | - | 695 | - | 17,174 | 8.7% |
| Substandard/Doubtful | - | - | - | - | - | - | - | - | - | - |
| Total | 11,117 | 32,407 | 46,889 | 67,071 | 9,873 | 21,415 | 8,564 | - | 197,336 | 100% |
| Current period gross charge-offs | - | - | - | - | - | - | - | - | - | |
| **Energy** | | | | | | | | | | |
| Acceptable | 17,037 | 12,705 | 31,161 | 35,000 | - | 27,764 | 49,505 | 9,385 | 182,557 | 99.8% |
| OAEM | - | - | - | - | - | - | - | - | - | - |
| Substandard/Doubtful | - | - | - | - | - | 385 | - | - | 385 | 0.2% |
| Total | 17,037 | 12,705 | 31,161 | 35,000 | - | 28,149 | 49,505 | 9,385 | 182,942 | 100.0% |
| Current period gross charge-offs | - | - | - | - | - | - | - | - | - | |
| **Rural residential real estate** | | | | | | | | | | |
| Acceptable | - | 201 | 10,016 | 19,716 | 16,349 | 32,228 | - | - | 78,510 | 98.1% |
| OAEM | - | - | 13 | 107 | 333 | 602 | - | - | 1,055 | 1.3% |
| Substandard/Doubtful | - | - | - | 206 | 127 | 177 | - | - | 510 | 0.6% |
| Total | - | 201 | 10,029 | 20,029 | 16,809 | 33,007 | - | - | 80,075 | 100.0% |
| Current period gross charge-offs | - | - | - | 2 | - | 9 | - | - | 11 | |
| **Water and Waste Disposal Loans** | | | | | | | | | | |
| Acceptable | - | 13,066 | 35,785 | - | 1,287 | - | 609 | - | 50,747 | 100% |
| OAEM | - | - | - | - | - | - | - | - | - | - |
| Substandard/Doubtful | - | - | - | - | - | - | - | - | - | - |
| Total | - | 13,066 | 35,785 | - | 1,287 | - | 609 | - | 50,747 | 100% |
| Current period gross charge-offs | - | - | - | - | - | - | - | - | - | |
| **Lease** | | | | | | | | | | |
| Acceptable | 80 | 2,842 | 3,023 | 295 | 56 | 3,451 | - | - | 9,747 | 52.0% |
| OAEM | - | 1,454 | - | 118 | - | 2,349 | - | - | 3,921 | 20.9% |
| Substandard/Doubtful | - | - | 78 | 3,859 | 1,150 | - | - | - | 5,087 | 27.1% |
| Total | 80 | 4,296 | 3,101 | 4,272 | 1,206 | 5,800 | - | - | 18,755 | 100.0% |
| Current period gross charge-offs | - | - | - | - | - | - | - | - | - | |
| **Mission Related Loans** | | | | | | | | | | |
| Acceptable | - | - | - | - | - | 1,650 | - | - | 1,650 | 100% |
| OAEM | - | - | - | - | - | - | - | - | - | - |
| Substandard/Doubtful | - | - | - | - | - | - | - | - | - | - |
| Total | - | - | - | - | - | 1,650 | - | - | 1,650 | 100% |
| Current period gross charge-offs | - | - | - | - | - | - | - | - | - | |
| **Total Loans** | | | | | | | | | | |
| Acceptable | $ 930,140 | $ 1,474,351 | $ 1,873,186 | $ 2,625,969 | $ 1,428,970 | $ 2,385,355 | $ 1,240,100 | $ 121,341 | $ 12,079,412 | 96.8% |
| OAEM | 6,629 | 21,960 | 25,107 | 29,034 | 37,317 | 63,355 | 63,589 | 506 | 247,497 | 2.0% |
| Substandard/Doubtful | 5,457 | 6,919 | 11,231 | 26,463 | 28,519 | 26,319 | 46,417 | - | 151,325 | 1.2% |
| Total | $ 942,226 | $ 1,503,230 | $ 1,909,524 | $ 2,681,466 | $ 1,494,806 | $ 2,475,029 | $ 1,350,106 | $ 121,847 | $ 12,478,234 | 100.0% |
| Total current period gross charge- | $ - | $ 53 | $ 5 | $ 5,718 | $ 1 | $ 23 | $ 3,432 | $ - | $ 9,232 | |

| December 31, 2023 | Term Loans by Origination Year 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Revolving Loans | Revolving Loans Converted to Term Loans | Total | December 31, 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Real estate mortgage** | | | | | | | | | | |
| Acceptable | $ 1,136,168 | $ 1,471,279 | $ 2,367,765 | $ 1,374,759 | $ 568,251 | $1,711,142 | $ 226 | $ 51,013 | $ 8,680,603 | 98.3% |
| OAEM | 11,556 | 10,825 | 15,168 | 27,715 | 13,660 | 18,498 | - | 174 | 97,596 | 1.1% |
| Substandard/Doubtful | 2,474 | 15,590 | 8,682 | 5,588 | 5,435 | 10,541 | 3,842 | - | 52,152 | 0.6% |
| Total | $ 1,150,198 | $ 1,497,694 | $ 2,391,615 | $ 1,408,062 | $ 587,346 | $1,740,181 | $ 4,068 | $ 51,187 | $ 8,830,351 | 100.0% |
| Current period gross charge-offs | - | - | 6 | 1 | 78 | 11 | - | - | 96 | |
| **Production and intermediate-term** | | | | | | | | | | |
| Acceptable | 258,481 | 176,169 | 110,457 | 42,196 | 39,578 | 70,680 | 935,600 | 15,473 | 1,648,634 | 96.3% |
| OAEM | 8,355 | 576 | 143 | 300 | 698 | 220 | 38,936 | - | 49,228 | 2.9% |
| Substandard/Doubtful | 2,732 | 288 | 1,033 | 1,129 | 227 | 1,507 | 6,493 | - | 13,409 | 0.8% |
| Total | 269,568 | 177,033 | 111,633 | 43,625 | 40,503 | 72,407 | 981,029 | 15,473 | 1,711,271 | 100.0% |
| Current period gross charge-offs | - | - | - | - | 13 | - | 2,299 | - | 2,312 | |
| **Farm-related business** | | | | | | | | | | |
| Acceptable | 144,040 | 199,171 | 171,509 | 63,187 | 55,176 | 63,487 | 248,944 | 34,095 | 979,609 | 92.1% |
| OAEM | - | 533 | 6,098 | 10,594 | - | 8,640 | 8,486 | 366 | 34,717 | 3.3% |
| Substandard/Doubtful | 2,881 | - | 14,615 | 16,948 | 3,446 | 1,610 | 9,661 | - | 49,161 | 4.6% |
| Total | 146,921 | 199,704 | 192,222 | 90,729 | 58,622 | 73,737 | 267,091 | 34,461 | 1,063,487 | 100.0% |
| Current period gross charge-offs | - | - | - | - | - | - | - | - | - | |
| **Communication** | | | | | | | | | | |
| Acceptable | 30,251 | 37,114 | 73,824 | 22,980 | 21,523 | - | 5,315 | - | 191,007 | 90.3% |
| OAEM | - | 14,905 | - | 5,397 | - | - | 294 | - | 20,596 | 9.7% |
| Substandard/Doubtful | - | - | - | - | - | - | - | - | - | - |
| Total | 30,251 | 52,019 | 73,824 | 28,377 | 21,523 | - | 5,609 | - | 211,603 | 100% |
| Current period gross charge-offs | - | - | - | - | - | - | - | - | - | |
| **Energy** | | | | | | | | | | |
| Acceptable | 5,838 | 36,523 | 35,868 | - | - | 28,414 | 27,757 | 9,558 | 143,958 | 99.7% |
| OAEM | - | - | - | - | - | - | - | - | - | - |
| Substandard/Doubtful | - | - | - | - | - | 493 | - | - | 493 | 0.3% |
| Total | 5,838 | 36,523 | 35,868 | - | - | 28,907 | 27,757 | 9,558 | 144,451 | 100.0% |
| Current period gross charge-offs | - | - | - | - | - | - | - | - | - | |
| **Rural residential real estate** | | | | | | | | | | |
| Acceptable | 419 | 11,041 | 21,360 | 17,784 | 7,952 | 26,714 | - | - | 85,270 | 98.3% |
| OAEM | - | 13 | 100 | 470 | - | 620 | - | - | 1,203 | 1.4% |
| Substandard/Doubtful | - | 54 | - | - | - | 199 | - | - | 253 | 0.3% |
| Total | 419 | 11,108 | 21,460 | 18,254 | 7,952 | 27,533 | - | - | 86,726 | 100.0% |
| Current period gross charge-offs | - | - | - | - | - | - | - | - | - | |
| **Water and Waste Disposal Loans** | | | | | | | | | | |
| Acceptable | 14,489 | 35,957 | - | 1,305 | - | - | - | - | 51,751 | 100% |
| OAEM | - | - | - | - | - | - | - | - | - | - |
| Substandard/Doubtful | - | - | - | - | - | - | - | - | - | - |
| Total | 14,489 | 35,957 | - | 1,305 | - | - | - | - | 51,751 | 100% |
| Current period gross charge-offs | - | - | - | - | - | - | - | - | - | |
| **Lease Receivables** | | | | | | | | | | |
| Acceptable | 4,647 | 3,383 | 759 | 259 | - | 3,931 | - | - | 12,979 | 63.2% |
| OAEM | - | - | 151 | 1,222 | - | 2,532 | - | - | 3,905 | 19.0% |
| Substandard/Doubtful | - | - | 3,648 | - | - | - | - | - | 3,648 | 17.8% |
| Total | 4,647 | 3,383 | 4,558 | 1,481 | - | 6,463 | - | - | 20,532 | 100.0% |
| Current period gross charge-offs | - | - | - | - | - | 1,309 | - | - | 1,309 | |
| **Mission Related Loans** | | | | | | | | | | |
| Acceptable | - | - | - | - | - | 1,729 | - | - | 1,729 | 100% |
| OAEM | - | - | - | - | - | - | - | - | - | - |
| Substandard/Doubtful | - | - | - | - | - | - | - | - | - | - |
| Total | - | - | - | - | - | 1,729 | - | - | 1,729 | 100% |
| Current period gross charge-offs | - | - | - | - | - | - | - | - | - | |
| **Total Loans** | | | | | | | | | | |
| Acceptable | $ 1,594,333 | $ 1,970,637 | $ 2,781,542 | $ 1,522,470 | $ 692,480 | $1,906,097 | $ 1,217,842 | $ 110,139 | $ 11,795,540 | 97.3% |
| OAEM | 19,911 | 26,852 | 21,660 | 45,698 | 14,358 | 30,510 | 47,716 | 540 | 207,245 | 1.7% |
| Substandard/Doubtful | 8,087 | 15,932 | 27,978 | 23,665 | 9,108 | 14,350 | 19,996 | - | 119,116 | 1.0% |
| Total | $ 1,622,331 | $ 2,013,421 | $ 2,831,180 | $ 1,591,833 | $ 715,946 | $1,950,957 | $ 1,285,554 | $ 110,679 | $ 12,121,901 | 100.0% |
| Total current period gross charge-offs | $ - | $ - | $ 6 | $ 1 | $ 91 | $ 1,320 | $ 2,299 | $ - | $ 3,717 | |

Accrued interest receivable on loans of $113,683 and $108,578 at June 30, 2024, and December 31, 2023, have been excluded from the amortized cost of loans and reported separately in the consolidated balance sheet. The association wrote off accrued interest receivable of $157 and $27 for the six and three months ended June 30, 2024, respectively, compared to $66 and $13 for the same periods of 2023.

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

| | June 30, 2024 | December 31, 2023 |
|---|---|---|
| **Nonaccrual loans:** | | |
| Real estate mortgage | **$ 17,606** | $ 15,505 |
| Production and intermediate-term | **3,445** | 3,741 |
| Farm-related business | **10,293** | 16,172 |
| Energy | **385** | 493 |
| Rural residential real estate | **283** | 98 |
| Total nonaccrual loans | **$ 32,012** | $ 36,009 |
| **Accruing loans 90 days or more past due:** | | |
| Production and intermediate-term | **413** | - |
| Farm-related business | **23,809** | - |
| Total accruing loans 90 days or more past due | **$ 24,222** | $ - |
| Total nonperforming loans | **$ 56,234** | $ 36,009 |
| Other property owned | **19,370** | 23,177 |
| Total nonperforming assets | **$ 75,604** | $ 59,186 |
| Nonaccrual loans as a percentage of total loans | **0.26%** | 0.30% |
| Nonperforming assets as a percentage of total loans and other property owned | **0.60%** | 0.49% |
| Nonperforming assets as a percentage of capital | **3.91%** | 3.29% |

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 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 | **$ 213** | **$ 17,393** | **$ 17,606** | **$ 518** | **$ 651** |
| Production and intermediate-term | **1,067** | **2,378** | **3,445** | **216** | **466** |
| Farm-related business | **-** | **10,293** | **10,293** | **-** | **26** |
| Energy | **385** | **-** | **385** | **-** | **-** |
| Rural residential real estate | **-** | **283** | **283** | **3** | **10** |
| Lease receivables | **-** | **-** | **-** | **-** | **128** |
| Mission-related investments | **-** | **-** | **-** | **-** | |
| **Total nonaccrual loans** | **$ 1,665** | **$ 30,347** | **$ 32,012** | **$ 737** | **$ 1,281** |

| | 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 | $ - | $ 15,505 | $ 15,505 | $ 642 | $ 699 |
| Production and intermediate-term | 1,505 | 2,236 | 3,741 | 62 | 169 |
| Farm-related business | 10,341 | 5,831 | 16,172 | 321 | 609 |
| Energy | 493 | - | 493 | - | - |
| Rural residential real estate | - | 98 | 98 | 9 | 9 |
| **Total nonaccrual loans** | $ 12,339 | $ 23,670 | $ 36,009 | $ 1,034 | $ 1,486 |

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

| June 30, 2024 | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or less than 30 Days Past Due | Total Loans | Loans > 90 Days and Accruing |
|---|---|---|---|---|---|---|
| **Real estate mortgage** | **$ 91,142** | **$ 7,144** | **$ 98,286** | **$ 8,981,818** | **$ 9,080,104** | **$ -** |
| **Production and intermediate-term** | **4,632** | **1,363** | **5,995** | **1,717,701** | **1,723,696** | **413** |
| **Farm-related business** | **-** | **34,102** | **34,102** | **1,108,827** | **1,142,929** | **23,809** |
| **Communication** | **-** | **-** | **-** | **197,336** | **197,336** | **-** |
| **Energy** | **-** | **-** | **-** | **182,942** | **182,942** | **-** |
| **Rural residential real estate** | **1,450** | **13** | **1,463** | **78,612** | **80,075** | **-** |
| **Water and waste disposal** | **-** | **-** | **-** | **50,747** | **50,747** | **-** |
| **Lease receivables** | **-** | **-** | **-** | **18,755** | **18,755** | **-** |
| **Mission-related investments** | **-** | **-** | **-** | **1,650** | **1,650** | **-** |
| **Total** | **$ 97,224** | **$ 42,622** | **$ 139,846** | **$ 12,338,388** | **$ 12,478,234** | **$ 24,222** |

| December 31, 2023 | 30-89 Days Past Due | 90 Days or More Past | Total Past Due | Not Past Due or less than 30 | Total Loans | Loans > 90 Days and Accruing |
|---|---|---|---|---|---|---|
| Real estate mortgage | $ 83,746 | $ 4,787 | $ 88,533 | $ 8,741,818 | $ 8,830,351 | $ - |
| Production and intermediate-term | 19,228 | 315 | 19,543 | 1,691,728 | 1,711,271 | - |
| Farm-related business | 3,237 | 16,172 | 19,409 | 1,044,078 | 1,063,487 | - |
| Rural residential real estate | 1,278 | 21 | 1,299 | 85,427 | 86,726 | - |
| Energy | - | - | - | 144,451 | 144,451 | - |
| Communication | - | - | - | 211,603 | 211,603 | - |
| Mission-related investments | - | - | - | 1,729 | 1,729 | - |
| Lease receivables | 1,507 | - | 1,507 | 19,025 | 20,532 | - |
| Water and waste disposal | - | - | - | 51,751 | 51,751 | - |
| Total | $ 108,996 | $ 21,295 | $ 130,291 | $ 11,991,610 | $ 12,121,901 | $ - |

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 difficulties during the three months ended June 30, 2024.

| | For the Six Months Ended June 30, 2024 | | | |
|---|---|---|---|---|
| | **Term Extension** | **Term Extension & Payment Deferral** | **Total** | **Percentage of Total by Loan Type** |
| Real estate mortgage | **$ 2,910** | **$ -** | **$ 2,910** | **0.0%** |
| Farm-related business | **-** | **6,172** | **6,172** | **0.5%** |
| **Total** | **$ 2,910** | **$ 6,172** | **$ 9,082** | **0.1%** |

| | For the Three Months Ended June 30, 2023 | | For the Six Months Ended June 30, 2023 | |
|---|---|---|---|---|
| | **Term Extension** | **Percentage of Total by Loan Type** | **Term Extension** | **Percentage of Total by Loan Type** |
| Real estate mortgage | $ 73 | 0.0% | $ 866 | 0.0% |
| **Total** | $ 73 | 0.0% | $ 866 | 0.0% |

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty as of the six and three months ended June 30, 2024 was $132 and $0, respectively, compared to $0 and $23, for the same periods of 2023.

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty during the six months ended June 30, 2024. There were no modifications to borrowers experiencing financial difficulty during the three months ended June 30, 2024.

| | Financial Effect<br>For the Six Months Ended June 30, 2024 |
|---|---|
| | Term Extension |
| Real estate mortgage | 1,419 days |
| | Combination – Term Extension and Payment Deferral |
| Farm-related business | 233 days |

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

| | Financial Effect<br>For the Three Months Ended June 30, 2023 | Financial Effect<br>For the Six Months Ended June 30, 2023 |
|---|---|---|
| | Term Extension | Term Extension |
| Real estate mortgage | 7,260 days | 7,275 days |

There were no modifications to borrowers experiencing financial difficulty that defaulted during the six months ended June 30, 2024 that received a modification in the twelve months before default. There were no modifications to borrowers experiencing financial difficulty on or after January 1, 2023, the date of adoption of the guidance, “Financial Instruments-Credit Losses: Troubled Debt Restructurings and Vintage Disclosure,” that defaulted during the six months ended June 30, 2024.

The following table sets forth an aging analysis of loans to borrowers experiencing financial difficulty that were modified during the twelve months prior to June 30, 2024:

**Six Months Ended June 30, 2024**

| | Payment Status of Loans Modified in the Past 12 Months | | |
|---|---|---|---|
| | **Current** | **30-89 Days Past Due** | **90 Days or More Past Due** |
| Real estate mortgage | $ 4,436 | $ - | $ - |
| Production and intermediate-term | 2,473 | - | - |
| Farm-related business | - | - | 13,597 |
| **Total** | **$ 6,909** | **$ -** | **$ 13,597** |

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

**Six Months Ended June 30, 2023**

| | Payment Status of Loans Modified in the Past 12 Months | | |
|---|---|---|---|
| | **Current** | **30-89 Days Past Due** | **90 Days or More Past Due** |
| Real estate mortgage | $ 866 | $ - | $ - |
| **Total** | **$ 866** | **$ -** | **$ -** |

Additional commitments to lend to borrowers experiencing financial difficulty whose loans have been modified during the six months ended June 30, 2024, were $4,203, and $2,893 during the year ended December 2023.

## 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 percent 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 | Farm related business | Rural Residential Real Estate | Energy and Water/Waste Disposal | Communication | Mission Related Investments | Lease Receivable | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Allowance for credit losses on loans:** | | | | | | | | | |
| Balance at March 31, 2024 | $ 15,074 | $ 6,275 | $ 4,479 | $ 140 | $ 412 | $ 624 | $ 5 | $ 693 | $ 27,702 |
| Charge-offs | - | (97) | - | (1) | - | - | - | - | (98) |
| Recoveries | 1 | 139 | 1 | - | - | - | - | - | 141 |
| Provision for (reversal of) loan losses | 743 | 1,389 | 132 | (15) | 23 | 91 | - | 27 | 2,390 |
| CECL Adjustment-Allowance | - | - | - | - | - | - | - | - | - |
| **Balance at June 30, 2024** | $ 15,818 | $ 7,706 | $ 4,612 | $ 124 | $ 435 | $ 715 | $ 5 | $ 720 | $ 30,135 |
| Balance at December 31, 2023 | $ 15,859 | $ 4,929 | $ 7,505 | $ 152 | $ 404 | $ 668 | $ 6 | $ 583 | $ 30,106 |
| Charge-offs | (103) | (164) | (8,954) | (11) | - | - | - | - | (9,232) |
| Recoveries | 1 | 422 | 185 | - | - | - | - | 333 | 941 |
| Provision for (reversal of) loan losses | 61 | 2,519 | 5,876 | (17) | 31 | 47 | (1) | (196) | 8,320 |
| CECL Adjustment-Allowance | - | - | - | - | - | - | - | - | - |
| **Balance at June 30, 2024** | $ 15,818 | $ 7,706 | $ 4,612 | $ 124 | $ 435 | $ 715 | $ 5 | $ 720 | $ 30,135 |
| Balance at March 31, 2023 | $ 14,936 | $ 4,146 | $ 4,101 | $ 180 | $ 814 | $ 331 | $ 6 | $ 595 | $ 25,109 |
| Charge-offs | - | - | - | - | - | - | - | (333) | (333) |
| Recoveries | - | 87 | - | - | 30 | - | - | - | 117 |
| Provision for (reversal of) loan losses | 87 | 378 | 2,389 | (10) | (417) | 57 | - | 266 | 2,750 |
| Balance at June 30, 2023 | $ 15,023 | $ 4,611 | $ 6,490 | $ 170 | $ 427 | $ 388 | $ 6 | $ 528 | $ 27,643 |
| Balance at December 31, 2022 | $ 13,067 | $ 4,512 | $ 2,444 | $ 38 | $ 735 | $ 190 | $ - | $ 400 | $ 21,386 |
| Charge-offs | (46) | (1,780) | - | - | - | - | - | (709) | (2,535) |
| Recoveries | 13 | 148 | 1 | - | 30 | - | - | - | 192 |
| Provision for (reversal of) loan losses | 948 | 2,481 | 2,255 | (30) | (448) | 49 | - | 629 | 5,884 |
| CECL Adjustment-Allowance | 1,041 | (750) | 1,790 | 162 | 110 | 149 | 6 | 208 | 2,716 |
| Balance at June 30, 2023 | $ 15,023 | $ 4,611 | $ 6,490 | $ 170 | $ 427 | $ 388 | $ 6 | $ 528 | $ 27,643 |
| **Allowance for credit losses on unfunded commitments:** | | | | | | | | | |
| Balance at March 31, 2024 | $ 21 | $ 231 | $ 175 | $ - | $ 9 | $ 8 | $ - | $ - | $ 444 |
| Provision for (reversal of) loan losses | (4) | 8 | (5) | - | 4 | (1) | - | - | 2 |
| **Balance at June 30, 2024** | $ 17 | $ 239 | $ 170 | $ - | $ 13 | $ 7 | $ - | $ - | $ 446 |
| Balance at December 31, 2023 | $ 25 | $ 167 | $ 201 | $ - | $ 12 | $ 10 | $ - | $ - | $ 415 |
| Provision for (reversal of) loan losses | (8) | 72 | (31) | - | 1 | (3) | - | - | 31 |
| **Balance at June 30, 2024** | $ 17 | $ 239 | $ 170 | $ - | $ 13 | $ 7 | $ - | $ - | $ 446 |
| Balance at March 31, 2023 | $ 23 | $ 127 | $ 228 | $ - | $ 9 | $ 6 | $ - | $ - | $ 393 |
| Provision for (reversal of) loan losses | (9) | 21 | 3 | - | 1 | - | - | - | 16 |
| Balance at June 30, 2023 | $ 14 | $ 148 | $ 231 | $ - | $ 10 | $ 6 | $ - | $ - | $ 409 |
| Balance at December 31, 2022 | $ 3 | $ 276 | $ 164 | $ - | $ 9 | $ 4 | $ - | $ - | $ 456 |
| Provision for (reversal of) loan losses | (3) | 22 | (33) | - | 1 | (1) | - | - | (14) |
| CECL Adjustment-unfunded commitments | 14 | (150) | 100 | - | - | 3 | - | - | (33) |
| Balance at June 30, 2023 | $ 14 | $ 148 | $ 231 | $ - | $ 10 | $ 6 | $ - | $ - | $ 409 |

## Discussion of Changes in Allowance for Credit Losses

The ACL increased $60 to $ 30,581 at June 30, 2024, as compared to $30,521 at December 31, 2023.  This is largely due to a charge-off to a relationship during the first quarter offset by a downgrade to another relationship during the quarter. The association’s specific reserves decreased by $2,822 to $605 at June 30, 2024, as compared to $3,428 at December 31, 2023 as a result of a charge off to a relationship during the first quarter of 2024.

## NOTE 3 —LEASES:

The association evaluates arrangements at inception to determine if it meets the criteria for a lease. Leases with an initial term of 12 months or less are not recorded on the balance sheet with lease expense recognized on a straight-line basis over the lease term. Operating leases with terms greater than 12 months are included in right of use asset-leases (ROU) and lease liabilities on the balance sheet.

ROU assets represent the association's right to use an underlying asset for the lease term and lease liabilities represent the association's obligation to make lease payments arising from the lease. Operating ROU assets and liabilities are recognized based on the present value of the lease payments over the lease term. As the rate implicit in the lease is generally not readily determinable for the association's operating leases, the discount rates used to determine the present value of the association's lease liability are based on the association's incremental borrowing rate at the lease commencement date and commensurate with the remaining lease term. The incremental borrowing rate for a lease is the association's cost of funds from the bank over a similar term at an amount equal to the lease payments in a similar economic environment. The association's lease terms may include options to extend or terminate the lease when it is reasonably certain that the association will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term and is included in "Occupancy and equipment" in the income statement.

The components of lease expense were as follows:

| | | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|---|
| | Classification | **June 30, 2024** | June 30, 2023 | **June 30, 2024** | June 30, 2023 |
| Operating lease expense | Operating | **$ 700** | $ 744 | **$ 1,458** | $ 1,483 |
| Short-term lease expense | Operating | **91** | 47 | **165** | 105 |
| Total lease expense | | **$ 791** | $ 791 | **$ 1,623** | $ 1,588 |

Other information related to leases was as follows:

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | **June 30, 2024** | June 30, 2023 | **June 30, 2024** | June 30, 2023 |
| Cash paid for amounts included in the measurement of lease liabilities: | | | | |
| Operating cash flows from operating leases | **$ 662** | $ 728 | **$ 1,380** | $ 1,441 |
| Right-of-use assets obtained in exchange for new lease obligations: | | | | |
| Operating leases | **91** | 80 | **1,029** | 186 |

Lease term and discount rate are as follows:

| | **June 30, 2024** | December 31, 2023 |
|---|---|---|
| Weighted average remaining lease term in years | | |
| Operating leases | **2.22** | 2.39 |
| Weighted average discount rate | | |
| Operating leases | **3.8%** | 3.2% |

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

| | Operating Leases |
|---|---|
| **2024 (excluding the six months ended 6/30/2024)** | **$ 1,388** |
| 2025 | 1,862 |
| 2026 | 1,122 |
| 2027 | 876 |
| 2028 | 789 |
| Thereafter | 797 |
| Total lease payments | 6,834 |
| Less: interest | - |
| Total | $ 6,834 |

## NOTE 4 — MEMBERS EQUITY:

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 patronage, 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, 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.

On January 19, 2021 the association issued $200,000 in noncumulative perpetual preferred stock. The decision to issue preferred stock came in response to the high level of loan growth in 2020 and expected continued growth. The issuance carries an annual dividend rate of 5.00 percent paid quarterly. The issuance will be callable March 15, 2026 and quarterly thereafter. If not called, the dividend will reset for the next five years to 4.52 percent over the five-year treasury on the call date. The association has made dividend payments on March 15, and June 15, 2024, for a total amount of $5,000.

**Regulatory Capital Ratios**

| | Regulatory Minimums with Buffer | As of June 30, 2024 | As of December 31, 2023 |
|---|---|---|---|
| Risk-adjusted: | | | |
| Common equity tier 1 ratio | 7.0% | **11.0%** | 11.5% |
| Tier 1 capital ratio | 8.5% | **12.4%** | 13.0% |
| Total capital ratio | 10.5% | **12.7%** | 13.3% |
| Permanent capital ratio | 7.0% | **12.5%** | 13.1% |
| Non-risk-adjusted: | | | |
| Tier 1 leverage ratio | 5.0% | **13.2%** | 13.9% |
| UREE leverage ratio | 1.5% | **4.0%** | 5.0% |

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

**Risk-adjusted Capital Ratios**

| 90 Day Average Balances (dollars in thousands) | Common equity tier 1 ratio | Tier 1 capital ratio | Total capital ratio | Permanent capital ratio |
|---|---|---|---|---|
| Numerator: | | | | |
| Unallocated retained earnings | $ 717,381 | $ 717,381 | $ 717,381 | $ 717,381 |
| Common Cooperative Equities: | | | | |
| Statutory minimum purchased borrower stock | 28,158 | 28,158 | 28,158 | 28,158 |
| Allocated equities held ≥7 years | 940,472 | 940,472 | 940,472 | 940,472 |
| Nonqualified allocated equities not subject to retirement | - | - | - | - |
| Non-cumulative perpetual preferred stock | - | 200,000 | 200,000 | 200,000 |
| Allowance for loan losses and reserve for credit losses subject to certain limitations | - | - | 28,250 | - |
| Regulatory Adjustments and Deductions: | | | | |
| Amount of allocated investments in other System institutions | (214,736) | (214,736) | (214,736) | (214,736) |
| Other regulatory required deductions | (1,045) | (1,045) | (1,045) | (1,045) |
| | $ 1,470,230 | $ 1,670,230 | $ 1,698,480 | $ 1,670,230 |
| Denominator: | | | | |
| Risk-adjusted assets excluding allowance | $ 13,640,556 | $ 13,640,556 | $ 13,640,556 | $ 13,640,556 |
| Regulatory Adjustments and Deductions: | | | | |
| Regulatory deductions included in total capital | (215,781) | (215,781) | (215,781) | (215,781) |
| Allowance for loan losses | - | - | - | (27,806) |
| | $ 13,424,775 | $ 13,424,775 | $ 13,424,775 | $ 13,396,969 |

**Non-risk-adjusted Capital Ratios**

| 90 Day Average Balances (dollars in thousands) | Tier 1 leverage ratio | UREE leverage ratio |
|---|---|---|
| Numerator: | | |
| Unallocated retained earnings | $ 717,381 | $ 717,381 |
| Common Cooperative Equities: | | |
| Statutory minimum purchased borrower stock | 28,158 | - |
| Allocated equities held ≥7 years | 940,472 | - |
| Non-cumulative perpetual preferred stock | 200,000 | - |
| Regulatory Adjustments and Deductions: | | |
| Amount of allocated investments in other System institutions | (214,736) | (214,736) |
| Other regulatory required deductions | (1,045) | (1,045) |
| | $ 1,670,230 | $ 501,600 |
| Denominator: | | |
| Total Assets | $ 12,834,469 | $ 12,834,469 |
| Regulatory Adjustments and Deductions: | | |
| Regulatory deductions included in tier 1 capital | (227,140) | (227,140) |
| | $ 12,607,329 | $ 12,607,329 |

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

| | 2024 | 2023 |
|---|---|---|
| Accumulated other comprensive income at January 1 | **$ 2,851** | $ 3,193 |
| Amortization of prior service (credit) included in salaries and employee benefits | **(69)** | (92) |
| Amortization of actuarial (gain) included in salaries and employee benefits | **(42)** | (55) |
| Other comprehensive (loss), net of tax | **(111)** | (147) |
| Accumulated other comprensive income at June 30 | **$ 2,740** | $ 3,046 |

## NOTE 5 — INCOME TAXES:

The association conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. The association operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the association can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the association and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized.

## NOTE 6 — 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 15 to the 2023 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis, which are measured at fair value at the end of each reporting period on the association's consolidated balance sheet, are summarized below. The association did not have any liabilities measured at fair value on a recurring basis.

| **June 30, 2024** | **Fair Value Measurement Using** | | | **Total Fair Value** |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | |
| Assets: | | | | |
| Assets held in nonqualified benefit trusts | **$ 8,671** | **$ -** | **$ -** | **$ 8,671** |
| Total assets | **$ 8,671** | **$ -** | **$ -** | **$ 8,671** |

| December 31, 2023 | Fair Value Measurement Using | | | Total Fair Value |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | |
| Assets: | | | | |
| Assets held in nonqualified benefit trusts | $ 8,462 | $ - | $ - | $ 8,462 |
| Total assets | $ 8,462 | $ - | $ - | $ 8,462 |

Assets and liabilities measured at fair value on a nonrecurring basis, which are fair value measurements that are triggered by particular circumstances such as impaired assets, for each of the fair value hierarchy levels are summarized below. The association did not have any liabilities measured at fair value on a nonrecurring basis.

| **June 30, 2024** | **Fair Value Measurement Using** | | | **Total Fair** |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Value** |
| Assets: | | | | |
| Loans | **$ -** | **$ -** | **$ 1,060** | **$ 1,060** |
| Other property owned | **-** | **-** | **21,562** | **21,562** |

| December 31, 2023 | Fair Value Measurement Using | | | Total Fair |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Value |
| Assets: | | | | |
| Loans | $ - | $ - | $ 8,911 | $ 8,911 |
| Other property owned | - | - | 33,902 | 33,902 |

*Loans represents the fair value of certain loans that were evaluated for impairment under the 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. With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs, as each collateral property is unique. The association utilizes appraisals to value these loans and other property owned and take into account unobservable inputs, such as income and expense, comparable sales, replacement cost and comparability adjustments.

**Valuation Techniques**

As more fully discussed in Note 15 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 represents 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 to Stockholders.

*Investments*

Include mortgage-backed securities issued by the Federal Agricultural Mortgage Corporation (Farmer Mac). Fair values are estimated using discounted cash flows considering market interest rates, estimated prepayment rates, probabilities of default and loss severities. Inputs depend significantly on management judgements and experience with the securities. These fair value measurements are classified as level 3 investments.

*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.

*Standby Letters of Credit*

The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

*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.

*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.

*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 associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the associations' 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.

*Commitments to Extend Credit*

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates.

## NOTE 7 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the six and three months ended June 30:

| | For the three months ended Other Benefits June 30, | | For the six months ended Other Benefits June 30, | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| Service Cost | **$ 61** | $ 58 | **$ 121** | $ 116 |
| Interest Cost | **295** | 273 | **590** | 545 |
| Expected return on plan assets | **-** | - | **-** | - |
| Amortization of prior service (credits) | **(34)** | (46) | **(69)** | (92) |
| Amortization of net actuarial (gain) | **(21)** | (27) | **(42)** | (55) |
| Net periodic benefit cost | **$ 301** | $ 258 | **$ 600** | $ 514 |

The association's liability for the unfunded accumulated obligation for these benefits at June 30, 2024, was $22,196 and is included in "Unfunded post-retirement medical obligations" in the balance sheet.

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. Contributions due and unpaid are recognized as a liability. For the DB plan, the association recognized costs of $480 and $834 for the six months ended June 30, 2024 and 2023, respectively. For the three months ended June 30, 2024 and 2023, the association recognized costs of $240 and $417, respectively.

The association's contributions to the DC Plan are expensed as incurred. For the six months ended June 30, 2024 and 2023, the association recognized pension costs of $2,181 and $2,188, respectively. For the three months ended June 30, 2024 and 2023, the association recognized costs of $682 and $666, respectively.

Employees are also eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan.  Contributions to the 401(k) plan are expensed as incurred.  For the six month period ended June 30, 2024 and 2023, the association contributed $1,575 and $1,568, respectively. The association contributed $511 and $494 for the three month period June 30, 2024 and 2023, respectively.

The association also participates in a defined contribution nonqualified supplemental 401(k) plan. The total expenses of the nonqualified plan included in the association's employee benefit costs were $136 and $172 for the six months ended June 30, 2024 and 2023, respectively. For the three month period ended June 30, 2024 and 2023, the association's benefit costs were $26 and $35, 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 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through August 9, 2024, which is the date the financial statements were issued and there are no other significant events requiring disclosure as of this date.