ALABAMA FARM CREDIT, ACA

2024
Quarterly Report
Second Quarter

For the Quarter 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.

Mel Koller, Chief Executive Officer/President
August 8, 2024

Matthew Christjohn, DVM, Chairman, Board of Directors
August 8, 2024

Kedric Karkosh, Chief Financial Officer
August 8, 2024

John R. Adams, Chairman, Audit Committee
August 8, 2024

Second quarter 2024 Financial Report

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ALABAMA FARM CREDIT, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(dollars in thousands, except as noted)

The following commentary reviews the financial performance of Alabama Farm Credit, (ACA Agricultural Credit Association), 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. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

Significant Events

In January 2024, the Association approved a patronage distribution to its stockholders. The Association was able to distribute $9,442,770 to its members due to strong earnings during 2023. The distribution was made in March 2024.

Loan Portfolio

Total loans outstanding at June 30, 2024, including nonaccrual loans and sales contracts, were $1,100,733,741 compared to $1,084,857,091 at December 31, 2023, reflecting an increase of 1.5 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.6 percent at June 30, 2024, compared to 0.3 percent at December 31, 2023.

The Association recorded $0 in recoveries and $11,903 in charge-offs for the quarter ended June 30, 2024, and $3,677 in recoveries and $919 in charge-offs for the same period in 2023. The Association's allowance for loan losses was 0.4 percent and 0.3 percent 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.

	June 30, 2024		December 31, 2023	
Nonaccrual loans:	Amount	%	Amount	%
Total nonaccrual loans	$ 6,800,904	93.8%	$ 3,527,689	74.8%
Total accruing loans 90 days or more past due	60,503	0.8%	162,211	3.5%
Other property owned	394,567	5.4%	1,023,848	21.7%
Total nonperforming assets	$ 7,255,974	100.0%	$ 4,713,748	100.0%

High-risk assets increased by $2,542,226, or 53.9 percent primarily due to the increase in nonaccrual loans, and loans 90 days past due and still accruing interest offset by a decrease in other property owned, net.

Nonaccrual loans as a percentage of total loans outstanding were 0.6 percent at June 30, 2024. Since December 31, 2023, the Association moved eight loans and seven borrowers, totaling $3,161,281 to nonaccrual status due to delinquency and cash flow issues. The Association has not acquired any properties during the six months ending June 30, 2024, however, has disposed of property on two borrowers. At June 30, 2024 the Association held two properties totaling $394,567, which consisted primarily of approximately 302 acres of land. Management continues to be alert to portfolio trends and has attempted to identify and report problem loans as quickly as possible. Management strives to implement proactive steps and allocate resources to work with distressed borrowers to either work through temporary repayment problems or to orderly liquidate collateral to repay the loan when the borrower's operation is no longer viable.

Impaired loans consist of all high-risk assets except other property owned. At March 31, 2024 and December 31, 2023, loans that were considered impaired were $6,800,904 and $3,527,689 respectively.

Counterparty risk is continually monitored by management of the Association. The Association's primary counterparty risk comes from poultry integrators with which its borrowers are associated and participation loans. The Association has participation loans with other Farm Credit Associations and Farm Credit banks. Additionally, because the Association has approximately 32.0 percent of its portfolio concentrated in poultry, it mitigates inherent risks in the poultry markets and the integrators by heavy utilization of government guarantees. Also, the Association's lending territory has multiple integrators, which would minimize the risk of counterparty failure or lack of performance. Management analyzes the financial position and performance of these integrators by regularly gathering updated financials and other reports that are made available to the public.

Except for the relationship between installment due date and seasonal cash-flow capabilities of the borrower, the Association is not affected by any seasonal characteristics. The factors affecting the operations of the Association are the same factors that would affect any agricultural real estate lender.

To help mitigate and diversify credit risk, the Association has employed practices including credit guarantees and engaging in loan participations. At June 30, 2024, the Association had approximately $109,076,428, or 9.9 percent, of its portfolio that had guarantees with the Farm Service Agency (FSA) or the Small Business Administration (SBA).

Results of Operations

The Association had net income of $3,661,144 and $6,770,833 for the three and six months ended June 30, 2024, as compared to net income of $3,974,378 and $8,685,260 for the same periods in 2023, reflecting a decrease of 7.9 and 22.0 percent. Net interest income was $7,128,777 and $13,948,522 for the three and six months ended June 30, 2024, compared to $6,633,399 and $13,533,581 for the same periods in 2023.

	Six Months Ended			
	June 30, 2024		June 30, 2023	
	Average Balance	Interest	Average Balance	Interest
Loans	$ 1,094,279,226	$ 32,679,887	$ 1,067,438,078	$ 28,367,934
Interest-bearing liabilities	979,124,385	18,731,366	951,800,776	14,834,353
Impact of capital	$ 115,154,841		$ 115,637,302	
Net interest income		$ 13,948,522		$ 13,533,581

	2024 Average Yield	2023 Average Yield
Total yield on interest- earning assets	6.01%	5.36%
Cost of interest-bearing liabilities	3.85%	3.14%
Interest rate spread	2.16%	2.22%
Net interest income as a percentage of average earning assets	2.56%	2.56%

	Six Months Ended June 30, 2024 vs. June 30, 2023		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	$ 715,305	$ 3,596,648	$ 4,311,953
Interest expense	427,031	3,469,982	3,897,013
Net interest income	$ 288,274	$ 126,666	$ 414,940

Net interest income for the six months ended June 30, 2024, increased by $414,940, or 3.1 percent, from the same period of 2023, primarily due to increases in yields on earning assets and an increase in average loan volume. Average loan volume for the second quarter of 2024 was $1,094,279,226, compared to $1,067,438,078 in the second quarter of 2023. The average net interest rate margin on the loan portfolio for the second quarter of 2024 was 2.6 percent, compared to 2.5 percent in the second quarter of 2023.

The Association's return on average assets for the six months ended June 30, 2024, was 1.2 percent compared to 1.6 percent for the same period in 2023. The Association's return on average equity for the six months ended June 30, 2024, was 9.0 percent, compared to 11.9 percent 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	$ 986,921,649	$ 965,495,373
Accrued interest on note payable	3,198,778	3,004,039
Total	$ 990,120,427	$ 968,499,412

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 $986,921,649 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 4.0 percent at June 30, 2024. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the GFA. The increase in note payable to the Bank and related accrued interest payable since December 31, 2023, is due to the increase in the Association's loan portfolio as a result of the increased loan demand in it's 27 county territory, and an increase in capital market loans. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $116,881,596 at June 30, 2024. The maximum amount the Association may borrow from the Bank as of June 30, 2024, was $1,106,854,277 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 increased by $6,810,223 at June 30, 2024, compared to December 31, 2023. The Association's debt as a percentage of members' equity was 6.4:1 as of June 30, 2024, compared to 6.7:1 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.

Risk-adjusted:	Regulatory Minimums with Buffer	As of June 30, 2024
Common equity tier 1 ratio	7.5%	11.7%
Tier 1 capital ratio	9.0%	11.7%
Total capital ratio	11.0%	12.1%
Permanent capital ratio	7.0%	11.7%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.4%	11.4%
UREE leverage ratio	2.0%	11.1%

Significant Recent Accounting Pronouncements

In March 2022, the Financial Accounting Standards Board (FASB) issued an update entitled "Financial Instruments - Credit Losses: Troubled Debt Restructurings and Vintage Disclosures." The guidance eliminates the accounting guidance for troubled debt restructurings (TDRs) by creditors while enhancing disclosure requirements for certain loan refinancings and restructurings when a borrower is experiencing financial difficulty. The creditor applies the guidance to determine whether a modification results in a new loan or a continuation of an existing loan. The update also requires public business entities to disclose current period gross write offs by year of origination for financing receivables and net investments in leases within the scope of the credit losses standard. These amendments were effective for the entity upon adoption of the measurement of credit losses on financial instruments standard on January 1, 2023.

The Association adopted the FASB guidance entitled "Measurement of Credit Losses on Financial Instruments" on January 1, 2023. This guidance established a single allowance framework for all financial assets measured at amortized cost and certain off-balance sheet credit exposures. The guidance requires management to consider in its estimate of allowance for credit losses (ACL) relevant historical events, current conditions and reasonable and supportable forecasts that affect the collectability of the assets. Prior to the adoption, the allowance for loan losses represented management's estimate of the probable credit losses inherent in its loan portfolio and certain unfunded commitments. In addition, the guidance amends existing impairment guidance for held-to-maturity and available-for-sale investments to incorporate an allowance, which will allow for the reversal of credit impairments in the event that the credit of an issuer improves. The adoption of this guidance was not material to the allowance for credit losses and retained earnings.

Relationship With the Farm Credit Bank of Texas

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

The annual and quarterly stockholder reports of the Bank can be found at the Bank's website at *www.farmcreditbank.com.*

The Association's quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Alabama Farm Credit, ACA, P.O. Box 639, Cullman, Alabama 35056 or calling (256) 737-7128. The annual and quarterly stockholder reports for the Association are also available on its website at www.alabamafarmcredit.com. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing Kedric.Karkosh@alabamafarmcredit.com.

Alabama Farm Credit, ACA

CONSOLIDATED BALANCE SHEETS

		June 30, 2024 (unaudited)		December 31, 2023
ASSETS				
Cash	$	11,519		10,700
Loans		1,100,733,741		1,084,857,091
Less: allowance for credit losses on loans		4,678,878		3,267,316
Net loans	$	1,096,054,863	$	1,081,589,775
Accrued interest receivable	$	12,117,385	$	12,145,623
Investment in and receivable from the Farm Credit Bank of Texas:				
Capital stock		17,958,700		17,958,700
Other		2,806,200		1,815,378
Other property owned, net		394,567		1,023,848
Premises and equipment, net		15,807,006		15,558,574
Other assets		5,549,865		4,279,297
Total assets	$	1,150,700,105	$	1,134,381,895
LIABILITIES				
Note payable to the Farm Credit Bank of Texas	$	986,921,649	$	965,495,373
Advance conditional payments		52		1,227,064
Accrued interest payable		3,198,778		3,004,039
Drafts outstanding		35,935		42,909
Dividends payable		(101,028)		9,342,498
Other liabilities		5,809,746		7,245,263
Total liabilities	$	995,865,132	$	986,357,146
MEMBERS' EQUITY				
Capital stock and participation certificates	$	3,480,625	$	3,434,855
Unallocated retained earnings		151,068,324		144,297,491
Accumulated other comprehensive income (loss)		286,024		292,403
Total members' equity		154,834,973		148,024,749
Total liabilities and members' equity	$	1,150,700,105	$	1,134,381,895

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

Alabama Farm Credit, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
INTEREST INCOME				
Loans	$ 16,688,314	$ 14,296,141	$ 32,679,887	$ 28,367,934
Total interest income	$ 16,688,314	$ 14,296,141	$ 32,679,887	$ 28,367,934
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	$ 9,559,537	$ 7,662,742	$ 18,731,366	$ 14,824,825
Total interest expense	9,559,537	7,662,742	18,731,366	14,834,353
Net interest income	$ 7,128,777	$ 6,633,399	$ 13,948,522	$ 13,533,581
PROVISION FOR LOAN LOSSES	$ 1,228,974	$ 380,964	$ 1,452,615	$ 75,891
Net interest income after provision for credit losses	$ 5,899,803	$ 6,252,435	$ 12,495,907	$ 13,457,690
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	$ 1,229,335	$ 2,003,624	$ 2,558,919	$ 3,923,100
Loan fees	136,430	101,032	275,155	301,114
Financially related services income	29,245	1,477	148,863	3,261
Gain (loss) on other property owned, net	(59,329)	(44,344)	(73,870)	276,775
Gain (loss) on sale of premises and equipment, net	36,909	182,365	51,435	191,107
Other noninterest income	196,121	220,957	375,641	308,521
Total noninterest income	$ 1,568,711	$ 2,465,111	$ 3,336,143	$ 5,003,878
NONINTEREST EXPENSES				
Salaries and employee benefits	$ 2,205,984	$ 2,572,618	$ 5,014,316	$ 5,158,661
Directors' expense	104,629	99,837	203,416	199,755
Purchased services	261,941	219,833	1,147,056	705,106
Travel	279,089	296,667	448,157	516,243
Occupancy and equipment	421,140	431,218	796,065	801,335
Communications	87,885	92,351	180,185	188,245
Advertising	106,565	115,383	203,912	324,179
Public and member relations	101,508	196,405	314,522	456,209
Supervisory and exam expense	101,391	91,230	202,782	182,459
Insurance fund premiums	(70,844)	354,187	139,759	735,941
Other noninterest expense	208,082	273,439	411,047	508,175
Total noninterest expenses	3,807,370	4,743,168	9,061,217	9,776,308
Income before income taxes	$ 3,661,144	$ 3,974,378	$ 6,770,833	$ 8,685,260
NET INCOME	$ 3,661,144	$ 3,974,378	$ 6,770,833	$ 8,685,260
Other comprehensive income:				
Change in postretirement benefit plans	$ (3,189)	$ (5,328)	$ (6,379)	$ (7,992)
Income tax expense related to items of other comprehensive income				
Other comprehensive income, net of tax	(3,189)	(5,328)	(6,379)	(7,992)
COMPREHENSIVE INCOME	$ 3,657,955	$ 3,969,050	$ 6,764,454	$ 8,677,268

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

Alabama Farm Credit, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2022	$ 3,498,465	$ 139,388,864	$ 288,084	$ 143,175,413
Net income		8,568,594	-	8,568,594
Other Comprehensive income			(7,992)	(7,992)
Capital stock/participation certificates and allocated retained earnings issued	163,105			163,105
Capital stock/participation certificates and allocated retained earnings retired	(195,795)			(195,795)
Capital stock/participation certificates and allocated retained earnings		(831,266)		(831,266)
Balance at June 30, 2023	$ 3,465,775	$ 147,126,192	$ 280,092	$ 150,872,059
Balance at December 31, 2023	$ 3,434,855	$ 144,297,491	$ 292,403	$ 148,024,749
Net income		6,770,832	-	6,770,832
Other comprehensive income			(6,379)	(6,379)
Capital stock/participation certificates and allocated retained earnings issued	199,315			199,315
Capital stock/participation certificates and allocated retained earnings retired	(154,545)			(154,545)
Balance at June 30, 2024	$ 3,479,625	$ 151,068,323	$ 286,024	$ 154,833,972

ALABAMA FARM CREDIT, ACA
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:

Alabama Farm Credit, ACA, (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Blount, Calhoun, Cherokee, Clay, Cleburne, Colbert, Cullman, DeKalb, Etowah, Fayette, Franklin, Jackson, Jefferson, Lamar, Lauderdale, Lawrence, Limestone, Madison, Marion, Marshall, Morgan, Randolph, Shelby, St. Clair, Talladega, Walker, and Winston in the state of Alabama. 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 Amount	December 31, 2023 Amount
Production agriculture:		
Real estate mortgage	$ 804,394,025	$ 783,840,002
Production and Intermediate-term	156,514,241	156,567,108
Agribusiness:		
Loans to cooperatives	4,230,194	5,550,290
Processing and marketing	65,209,447	68,338,627
Farm-related business	29,666,944	28,319,108
Communication	4,659,775	4,668,050
Energy	4,994,653	4,993,905
Water and waste-water	9,314,063	9,417,330
Rural residential real estate	14,938,449	16,792,418
Agricultural export finance	6,811,950	6,370,253
Total	$ 1,100,733,741	$ 1,084,857,091

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations.

The following table presents information regarding the balances of participations purchased and sold at June 30, 2024:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 3,302,788	$ 130,061,859	$ -	$ 2,000,000	$ 3,302,788	$ 132,061,859
Production and intermediate-term	36,838,761.71	11,053,473.91	-	1,151,280	36,838,762	12,204,754
Agribusiness	55,351,504.24	16,261,205.51	12,373,525	-	67,725,029	16,261,205
Communication	4,659,775.29	0.00	-	-	4,659,775	-
Energy	4,994,652.85	0.00	-	-	4,994,653	-
Water and waste-water	9,314,063.00	0.00	-	-	9,314,063	-
Rural residential real estate	0.00	1,112,547.74	-	-	-	1,112,548
Agricultural export finance	6,811,949.96	-	-	-	6,811,950	-
Total	$ 121,273,495	$ 158,489,086	$ 12,373,525	$ 3,151,280	$ 133,647,020	$ 161,640,366

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 $52 and $1,227,064 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 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:

	June 30, 2024		December 31, 2023	
Real estate mortgage				
Acceptable	$ 791,921,339	71.9%	$ 761,746,809	70.2%
OAEM	9,254,989	0.8%	10,126,378	0.9%
Substandard	12,462,388	1.1%	11,966,815	1.1%
	$ 813,638,715	73.8%	$ 783,840,002	72.2%
Production and intermediate-term				
Acceptable	$ 158,169,500	14.4%	$ 154,078,788	14.2%
OAEM	1,180,734	0.1%	1,406,545	0.1%
Substandard	884,115	0.1%	1,081,775	0.1%
	$ 160,234,349	14.6%	$ 156,567,108	14.4%
Agribusiness				
Acceptable	$ 95,473,723	8.7%	$ 100,344,905	9.2%
OAEM	2,631,027	0.2%	1,863,120	0.2%
Substandard	2,612,896	0.2%	-	
	$ 100,717,646	9.1%	$ 102,208,025	9.4%
Energy				
Acceptable	$ 4,997,609	0.5%	$ 4,993,905	0.5%
OAEM	-		-	
Substandard	-		-	
	$ 4,997,609	0.5%	$ 4,993,905	0.5%
Water/waste-water				
Acceptable	$ 9,347,437	0.8%	$ 9,417,330	0.9%
OAEM	-		-	
Substandard	-		-	
	$ 9,347,437	0.8%	$ 9,417,330	0.9%
	-		-	
Communication				
Acceptable	$ 4,732,417	0.4%	$ 4,668,050	0.4%
OAEM	-		-	
Substandard	-		-	
	$ 4,732,417	0.4%	$ 4,668,050	0.4%
	-		-	
Rural residential real estate				
Acceptable	$ 235,840	0.0%	$ 16,256,636	1.5%
OAEM	-		68,631	
Substandard	-		467,151	
	$ 235,840	0.0%	$ 16,792,418	1.5%
	-		-	
Agricultural export finance				
Acceptable	$ 6,829,727	0.6%	$ 6,370,253	0.6%
OAEM	-		-	
Substandard	-		-	
	$ 6,829,727	0.6%	$ 6,370,253	0.6%
	-		-	
Acceptable	$ 1,071,707,592	97.4%	$ 1,057,876,676	97.6%
OAEM	13,066,750	1.2%	13,464,674	1.2%
Substandard	15,959,399	1.4%	13,515,741	1.2%
	$ 1,100,733,741	100.0%	$ 1,084,857,091	100.0%

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	$ 3,826,962	$ 3,164,415
Production and intermediate-term	212,828	246,328
Agribusiness	2,612,896	-
Rural residential real estate	148,218	116,946
Total nonaccrual loans	$ 6,800,904	$ 3,527,689
Accruing loans 90 days or more past due:		
Real estate mortgage	$ -	$ 162,211
Production and intermediate-term	60,503	-
Total accruing loans 90 days or more past due	$ 60,503	$ 162,211
Other property owned	394,567	1,023,848
Total nonperforming assets	$ 7,255,974	$ 4,713,748
Nonaccrual loans as a percentage of total loans	0.62%	0.33%
Nonperforming assets as a percentage of total loans and other property owned	0.66%	0.43%
Nonperforming assets as a percentage of capital	4.69%	3.18%

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 Six Months Ended June 30, 2024
Nonaccrual loans:				
Real estate mortgage	$ 616,710	$ 3,604,819	$ 4,221,529	$ 12,117
Production and intermediate-term	-	212,828	212,828	3,264
Agribusiness	2,612,896	-	2,612,896	123,364
Rural residential real estate	-	148,218	148,218	143
Total nonaccrual loans	$ 3,229,606	$ 3,965,865	$ 7,195,471	$ 138,889

	December 31, 2023			Interest Income Recognized
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	For the Six Months Ended June 30, 2024
Nonaccrual loans:				
Real estate mortgage	$ 771,832	$ 2,408,973	$ 3,180,805	$ 126,467
Production and intermediate-term	17,025	229,303	246,328	1,718
Rural residential real estate	-	116,946	116,946	8,476
Total nonaccrual loans	$ 788,857	$ 2,755,222	$ 3,544,079	$ 136,661

The following tables provide 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 nor Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 7,445,620	$ 1,341,361	$ 8,786,981	$ 790,083,928	$ 798,870,909	$ -
Production and intermediate term	2,101,732	261,595	$ 2,363,327	157,871,022	$ 160,234,349	60,503
Loans to cooperatives	-	-	$ -	4,247,223	$ 4,247,223	-
Processing and marketing	2,612,896	-	$ 2,612,896	63,600,007	$ 66,212,903	-
Farm-related business	-	-	$ -	30,257,520	$ 30,257,520	-
Communication	-	-	$ -	4,732,417	$ 4,732,417	-
Energy	-	-	$ -	4,997,609	$ 4,997,609	-
Water and waste-water	-	-	$ -	9,347,437	$ 9,347,437	-
Rural residential real estate	191,069	-	$ 191,069	14,812,579	$ 15,003,648	-
Agricultural export finance	-	-	$ -	6,829,726	$ 6,829,726	-
Total	$ 12,351,317	$ 1,602,956	$ 13,954,273	$ 1,086,779,468	$ 1,100,733,741	$ 60,503

December 31, 2023	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due nor Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 5,164,863	$ 514,857	$ 5,679,720	$ 778,160,282	$ 783,840,002	$ 162,211
Production and intermediate term	752,717	229,303	$ 982,020	155,585,088	$ 156,567,108	-
Loans to cooperatives	-	-	$ -	5,550,290	$ 5,550,290	-
Processing and marketing	-	-	$ -	68,338,627	$ 68,338,627	-
Farm-related business	-	-	$ -	28,319,108	$ 28,319,108	-
Communication	-	-	$ -	4,668,050	$ 4,668,050	-
Energy	-	-	$ -	4,993,905	$ 4,993,905	-
Water and waste-water	-	-	$ -	9,417,330	$ 9,417,330	-
Rural residential real estate	38,710	116,946	$ 155,656	16,636,762	$ 16,792,418	-
Agricultural export finance	-	-	$ -	6,370,253	$ 6,370,253	-
Lease receivables	-	-	$ -	-	$ -	-
Mission-related investments	-	-	$ -	-	$ -	-
Total	$ 5,956,290	$ 861,106	$ 6,817,396	$ 1,078,039,695	$ 1,084,857,091	$ 162,211

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.

For the Three Months Ended June 30, 2024

					Combination					
	Interest Rate Reduction	Term Extension	Payment Deferral	Principal Forgivness	Interest Rate & Term Extension	Interest Rate & Payment Deferral	Interest Rate & Principal Forgiveness	Term Extension & Principal Forgiveness	Term Extension & Payment Deferral	Payment Extension & Principal Forgivness
Real estate mortgage	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Production and Intermediate-Term	-	-	-	-	-	-	-	-	-	-
Loans to cooperatives	-	-	-	-	-	-	-	-	-	-
Processing and marketing	-	-	-	-	-	-	-	-	-	-
Farm-related business	-	-	-	-	-	-	-	-	-	-
Communication	-	-	-	-	-	-	-	-	-	-
Energy	-	-	-	-	-	-	-	-	-	-
Water and waste-water	-	-	-	-	-	-	-	-	-	-
Rural residential real estate	-	148,218	-	-	-	-	-	-	-	-
Agricultural export finance	-	-	-	-	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-	-	-	-	-
Mission-related investments	-	-	-	-	-	-	-	-	-	-
Total	$ -	$ 148,218	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

For the Three Months Ended June 30, 2023

	Interest Rate Reduction	Term Extension	Payment Deferral	Principal Forgivness	Combination					
					Interest Rate & Term Extension	Interest Rate & Payment Deferral	Interest Rate & Principal Forgiveness	Term Extension & Principal Forgiveness	Term Extension & Payment Deferral	Payment Extension & Principal Forgivness
Real estate mortgage	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Production and Intermediate-Term	-	-	-	-	-	-	-	-	-	-
Loans to cooperatives	-	-	-	-	-	-	-	-	-	-
Processing and marketing	-	-	-	-	-	-	-	-	-	-
Farm-related business	-	-	-	-	-	-	-	-	-	-
Communication	-	-	-	-	-	-	-	-	-	-
Energy	-	-	-	-	-	-	-	-	-	-
Water and waste-water	-	-	-	-	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-	-	-	-	-
Agricultural export finance	-	-	-	-	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-	-	-	-	-
Mission-related investments	-	-	-	-	-	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty as of the three months ended June 30, 2024, and 2023 were $132 and $0, respectively.

For the Three Months Ended June 30, 2024

	Interest Rate Reduction	Term Extension	Payment Deferral	Principal Forgivness	Combination					
					Interest Rate & Term Extension	Interest Rate & Payment Deferral	Interest Rate & Principal Forgiveness	Term Extension & Principal Forgiveness	Term Extension & Payment Deferral	Payment Extension & Principal Forgivness
Real estate mortgage	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Production and Intermediate-Term	-	-	-	-	-	-	-	-	-	-
Loans to cooperatives	-	-	-	-	-	-	-	-	-	-
Processing and marketing	-	-	-	-	-	-	-	-	-	-
Farm-related business	-	-	-	-	-	-	-	-	-	-
Communication	-	-	-	-	-	-	-	-	-	-
Energy	-	-	-	-	-	-	-	-	-	-
Water and waste-water	-	-	-	-	-	-	-	-	-	-
Rural residential real estate	-	132	-	-	-	-	-	-	-	-
Agricultural export finance	-	-	-	-	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-	-	-	-	-
Mission-related investments	-	-	-	-	-	-	-	-	-	-
Total	$ -	$ 132	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

For the Three Months Ended June 30, 2023

	Interest Rate Reduction	Term Extension	Payment Deferral	Principal Forgivness	Combination					
					Interest Rate & Term Extension	Interest Rate & Payment Deferral	Interest Rate & Principal Forgiveness	Term Extension & Principal Forgiveness	Term Extension & Payment Deferral	Payment Extension & Principal Forgivness
Real estate mortgage	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Production and Intermediate-Term	-	-	-	-	-	-	-	-	-	-
Loans to cooperatives	-	-	-	-	-	-	-	-	-	-
Processing and marketing	-	-	-	-	-	-	-	-	-	-
Farm-related business	-	-	-	-	-	-	-	-	-	-
Communication	-	-	-	-	-	-	-	-	-	-
Energy	-	-	-	-	-	-	-	-	-	-
Water and waste-water	-	-	-	-	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-	-	-	-	-
Agricultural export finance	-	-	-	-	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-	-	-	-	-
Mission-related investments	-	-	-	-	-	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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

	Financial Effect For the Three Months Ended June 30, 2024
	Interest Rate Reduction
Real estate mortgage	-
Agribusiness	-
	Term Extension
Real estate mortgage	-
Rural residential real estate	$ 148,218
	Payment Deferral
Real estate mortgage	-
Rural residential real estate	-
	Principal Forgiveness
Real estate mortgage	-
Production and intermediate-term	-
	Combination - Interest Rate Reduction and Term Extension
Real estate mortgage	-
Agribusiness	-
	Combination - Interest Rate Reduction and Payment
Real estate mortgage	-
Agribusiness	-
	Combination – Interest Rate Reduction and Principal
Real estate mortgage	-
Production and intermediate-term	-
	Combination – Term Extension and Principal Forgiveness
Real estate mortgage	-
Agribusiness	-
	Combination – Term Extension and Payment Deferral
Real estate mortgage	-
Agribusiness	-
	Combination – Payment Deferral and Principal
Real estate mortgage	-
Agribusiness	-

	Financial Effect For the Three Months Ended June 30, 2023
	Interest Rate Reduction
Real estate mortgage	-
Agribusiness	-
	Term Extension
Real estate mortgage	-
Rural residential real estate	-
	Payment Deferral
Real estate mortgage	-
Rural residential real estate	-
	Principal Forgiveness
Real estate mortgage	-
Production and intermediate-term	-
	Combination - Interest Rate Reduction and Term Extension
Real estate mortgage	-
Agribusiness	-
	Combination - Interest Rate Reduction and Payment Deferral
Real estate mortgage	-
Agribusiness	-
	Combination – Interest Rate Reduction and Principal Forgiveness
Real estate mortgage	-
Production and intermediate-term	-
	Combination – Term Extension and Principal Forgiveness
Real estate mortgage	-
Agribusiness	-
	Combination – Term Extension and Payment Deferral
Real estate mortgage	-
Agribusiness	-
	Deferral and Principal Forgiveness
Real estate mortgage	-
Agribusiness	-

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:

	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	$ 219,431	$ -	$ -
Production and intermediate-term	$ -	-	-
Agribusiness	$ -	-	-
Communication	$ -	-	-
Energy and Water/waste disposal	$ -	-	-
Rural residential real estate	$ 148,218	-	-
International	$ -	-	-
Mission-related investments	$ -	-	-
Lease receivables	$ -	-	-
Total	$ 367,649	$ -	$ -

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:

	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	$ 219,431	$ -	$ -
Production and intermediate-term	$ -	-	-
Agribusiness	$ -	-	-
Communication	$ -	-	-
Energy and Water/waste disposal	$ -	-	-
Rural residential real estate	$ 148,218	-	-
International	$ -	-	-
Mission-related investments	$ -	-	-
Lease receivables	$ -	-	-
Total	$ 367,649	$ -	$ -

Additional commitments to lend to borrowers experiencing financial difficulty whose loans have been modified during the six months ended June 30, 2024, were $0 and during the year ended December 2023 were $0.

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 Residential Real Estate	International	Total
Allowance for credit losses on loans:								
Balance at March 31, 2024	$ (2,784,689)	$ (298,897)	$ (322,808)	$ (7,265)	$ (17,596)	$ (55,491)	$ (5,815)	$ (3,492,561)
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for credit losses/(Credit loss reversal)	(115,753)	13,366	(1,083,159)	(174)	486	(1,181)	99	(1,186,317)
Balance at June 30, 2024	$ (2,900,442)	$ (285,531)	$ (1,405,967)	$ (7,439)	$ (17,110)	$ (56,672)	$ (5,716)	$ (4,678,878)
Allowance for credit losses on unfunded commitments:								
Balance at March 31, 2024	$ (188)	$ (288,939)	$ (96,218)	$ (397)	$ (875)	$ -	$ (3,977)	$ (390,594)
Provision for unfunded commitments	(2,168)	(36,277)	(4,534)	36	25	-	262	(42,657)
Balance at June 30, 2024	$ (2,356)	$ (325,216)	$ (100,752)	$ (361)	$ (850)	$ -	$ (3,716)	$ (433,251)

	Real Estate Mortgage	Production and Intermediate-Term	Agri-business	Communi-cations	Energy and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Allowance for credit losses on loans:								
Balance at December 31, 2023	$ (2,627,276)	$ (250,753)	$ (299,585)	$ (7,671)	$ (19,104)	$ (56,307)	$ (6,620)	$ (3,267,316)
Charge-offs	9,138	2,351	-	-	-	414	-	11,903
Recoveries	-	-	-	-	-	-	-	-
Provision for credit losses/(Credit loss reversal)	(282,304)	(37,129)	(1,106,382)	232	1,994	(779)	904	(1,423,465)
Balance at June 30, 2024	$ (2,900,442)	$ (285,531)	$ (1,405,967)	$ (7,439)	$ (17,110)	$ (56,672)	$ (5,716)	$ (4,678,878)
Allowance for credit losses on unfunded commitments:								
Balance at December 31, 2023	$ (1,411)	$ (299,663)	$ (97,019)	$ (450)	$ (999)	$ -	$ (4,559)	$ (404,101)
Provision for unfunded commitments	(945)	(25,553)	(3,733)	89	149	-	844	(29,150)
Balance at June 30, 2024	$ (2,356)	$ (325,216)	$ (100,752)	$ (361)	$ (850)	$ -	$ (3,716)	$ (433,251)

Changes in Allowance for Credit Losses

The ACL increased $1,411,562 to $4,678,878 at June 30, 2024, as compared to $3,267,316 at December 31, 2023.

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

Risk-adjusted:	Regulatory Minimums with Buffer	As of June 30, 2024
Common equity tier 1 ratio	7.5%	11.7%
Tier 1 capital ratio	9.0%	11.7%
Total capital ratio	11.0%	12.1%
Permanent capital ratio	13.6%	11.7%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.4%	11.4%
UREE leverage ratio	2.0%	11.1%

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

Risk-adjusted Capital Ratios

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 147,885,717	$ 147,885,717	$ 147,885,717	$ 147,885,717
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	3,466,478	3,466,478	3,466,478	3,466,478
Allowance for loan losses and reserve for credit losses subject to certain limitations			3,924,744	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(20,778,074)	(20,778,074)	(20,778,074)	(20,778,074)
Other regulatory required deductions	(2,831,759)	(2,831,759)	(2,831,759)	(2,831,759)
	$ 127,742,362	$ 127,742,362	$ 131,667,106	$ 127,742,362
Denominator:				
Risk-adjusted assets excluding allowance	$ 1,116,246,794	$ 1,116,246,794	$ 1,116,246,794	$ 1,116,246,794
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(23,609,833)	(23,609,833)	(23,609,833)	(23,609,833)
Allowance for loan losses				(3,532,728)
	$ 1,092,636,961	$ 1,092,636,961	$ 1,092,636,961	$ 1,089,104,233

Non-risk-adjusted Capital Ratios

		Tier 1 leverage ratio		UREE leverage ratio
Numerator:				
Unallocated retained earnings	$	147,885,717	$	147,885,717
Common Cooperative Equities:				
Statutory minimum purchased borrower stock		3,466,478		-
Amount of allocated investments in other System institutions		(20,778,074)		(20,778,074)
Other regulatory required deductions		(2,831,759)		(2,831,759)
	$	127,742,362	$	124,275,884
Denominator:				
Total Assets	$	1,145,418,642	$	1,145,418,642
Regulatory Adjustments and Deductions:				
Regulatory deductions included in tier 1 capital		(25,358,327)		(25,358,327)
	$	1,120,060,315	$	1,120,060,315

The following table presents the activity in the accumulated other comprehensive Income (Loss), net of tax by component:

		June 30, 2024		December 31, 2023
Capital stock and participation certificates	$	3,479,625	$	3,434,855
Additional paid-in-capital		-		-
Accumulated other comprehensive loss		286,024		292,403
Retained earnings1		151,068,323		144,297,491
Total Capital	$	154,833,972	$	148,024,749

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:

	2024	2023
Accumulated other comprehensive income (loss) at January 1	$ 292,403	$ 288,084
Amortization of actuarial (gain) loss included in salaries and employee benefits	(6,379)	(7,992)
Accumulated other comprehensive income (loss) at June 30	$ 286,024	$ 280,092

NOTE– 4 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 13 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	$ -	$ -	$ 2,123,478	$ 2,123,478
Other property owned	-	-	394,567	394,567

December 31, 2023	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	$ -	$ -	$ 766,268	$ 766,268
Other property owned	-	-	1,023,848	1,023,848

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.

Uncertainty of Fair Value Measurements

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would have resulted in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default would have been accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Quoted market prices are generally not available for the instruments presented below. Accordingly, fair values are based on internal models that consider judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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 Associations utilize appraisals to value these loans and other property owned and take into account unobservable inputs, such as income and expense, comparable sales, replacement cost and comparability adjustments.

Valuation Techniques

As more fully discussed in Note 13 to the 2023 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see the 2023 Annual Report to Stockholders

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 approximates 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 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.

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 5 – EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the three months ended March 31:

	Other Benefits	
Three months ended June 30:	2024	2023
Service cost	$ 6,781	$ 6,347
Interest cost	23,277	20,960
Amortization of prior service (credits) costs	(2,171)	(2,171)
Amortization of net actuarial (gain) loss	(1,020)	-
Net periodic benefit cost	$ 26,867	$ 25,136

	Other Benefits	
Six months ended June 30:	2024	2023
Service cost	$ 13,562	$ 12,694
Interest cost	46,554	41,920
Amortization of prior service (credits) costs	(4,341)	-
Amortization of net actuarial (gain) loss	(2,040)	(2,171)
Net periodic benefit cost	$ 53,735	$ 52,443

The Association's liability for the unfunded accumulated obligation for these benefits at June 30, 2024, was $1,722,318 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 $67,655 to the district's defined benefit pension plan in 2024. As of June 30, 2024, $33,828 of contributions have been made. The Association presently anticipates contributing an additional $33,828 to fund the defined benefit pension plan in 2024 for a total of $67,655.

NOTE 6 – 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.