# QUARTERLY REPORT

## June 30, 2024

# FARM CREDIT OF WESTERN KANSAS, ACA

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## DISCLOSURE OF IMPACT OF BANK OPERATIONS ON SHAREHOLDERS' INVESTMENT IN THE ASSOCIATION

The shareholders' investment in Farm Credit of Western Kansas, ACA is materially affected by the financial condition and results of operations of CoBank, ACB (CoBank). The 2023 CoBank Annual Report to Shareholders and the CoBank Quarterly Shareholders' Reports are available free of charge by accessing CoBank's web site, www.cobank.com, or may be obtained at no charge by contacting us at:


Farm Credit of Western Kansas, ACA
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1190 S Range Ave
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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
(Unaudited)

The following discussion summarizes the financial position and results of operations of Farm Credit of Western Kansas, ACA (the Association) for the six months ended June 30, 2024, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2023 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

Our financial condition and profitability remain strong following a favorable earnings year in 2023 and a positive start in 2024. We distributed a $5.5 million patronage to borrowers this year. Accrual loan volume has increased 2.76% during the first half of 2024 and average year-to-date accrual loan volume is 14.19% higher than the same period in the prior year. Capital remains very strong and exceeds regulatory guidelines.

Grain prices have declined while livestock prices have remained strong. The 2024 renewal season shows some additional stress in the portfolio as lower grain prices and high costs present challenges to borrowers. Portions of the borrowing area were impacted by hailstorms, but many producers harvested a wheat crop that was above average.

The growth of the US economy has gradually softened through the first half of 2024 primarily due to continued elevated inflation and high interest rates. Upward trends for Gross Domestic Product (GDP) and consumer spending have also slowed as a result, but generally remained strong. The Federal Reserve announced at its June 2024 meeting that rates would remain steady at the current range of 5.25% - 5.50% with implications of fewer rate cuts this year than previously anticipated. After recording strong growth for the past two years, net cash farm income is projected to decline by 24.1% in 2024 according to the USDA forecast report in February. This decrease is primarily driven by high farming expenses, lower direct government payments, and weakening commodity prices. Global conflicts have continued to put additional pressures on commodity prices, contributing to volatility and uncertainty in the markets.

## LOAN PORTFOLIO

Loans outstanding at June 30, 2024, totaled $494.5 million, an increase of $13.4 million, or 2.79%, from loans of $481.1 million at December 31, 2023. The increase was primarily due to increases of $10.9 million in production and intermediate loans, $5.4 million in rural infrastructure loans, and $1.9 million in agribusiness loans partially offset by a decrease of $4.8 million in real estate loans.

## RESULTS OF OPERATIONS

Net income for the six months ended June 30, 2024, was $5.5 million, an increase of $1.3 million, or 32.21%, from the same period ended one year ago. The increase is primarily due to increases in net interest income, noninterest income, and a decrease in provision for credit losses, partially offset by an increase in noninterest expense.

Net interest income for the six months ended June 30, 2024, was $7.6 million, an increase of $691 thousand, or 10.04%, compared with the six months ended June 30, 2023. Net interest income increased as a result of an increase in average loan volume partially offset by a decrease in the net interest margin of 12 basis points.

The provision for credit losses for the six months ended June 30, 2024, was $101 thousand, a decrease of $423 thousand, or 80.73%, from the provision for credit losses for the same period ended one year ago. The provision for credit losses decreased as a result of a decrease of the specific reserve on a participation loan partially offset by an overall increase in average loan volume.

Noninterest income increased $258 thousand during the first six months of 2024 compared with the first six months of 2023 primarily due to increases in patronage from Farm Credit institutions of $148 thousand. Patronage distribution from Farm Credit institutions increased in the six months ended June 30, 2024, compared with the first six months in 2023 primarily due to increased patronage from CoBank related to our direct note payable with CoBank. Also included in noninterest income is a refund of $122 thousand from Farm Credit System Insurance Corporation (FCSIC). There was no refund received in 2023. The refund is our portion of excess funds above the secure base amount in the FCSIC Allocated Insurance Reserve Accounts. Refer to the 2023 Annual Report to Shareholders for additional information.

We received mineral income of $119 thousand during the first six months of 2024, which is distributed to us quarterly by CoBank. The decrease for the six months ended June 30, 2024, compared with the first six months of 2023 is due to lower oil and gas commodity prices paid on production.

During the first six months of 2024, noninterest expense increased $25 thousand primarily due to an increase in other noninterest expense of $175 thousand partially offset by a decrease in purchased services from AgVantis, Inc. of $84 thousand. Farm Credit System Insurance Corporation (FCSIC) premiums decreased $83 thousand for the six months ended June 30, 2024, compared with the same period in 2023 due to a decrease in the insurance premium accrual assessment rate on Systemwide adjusted insured debt from 18 basis points to 10 basis points. Other noninterest expense increased primarily due to increases in Foundations HR consulting services fees of $80 thousand and directors' compensation of $36 thousand.

**CAPITAL RESOURCES**

Our shareholders' equity at June 30, 2024, was $117.4 million, an increase from $111.9 million at December 31, 2023. This increase is primarily due to net income.

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

Mark A. Wood
Audit Committee Chairman
August 9, 2024

Randal D. Wilson
President/CEO
August 9, 2024

Christopher R. Halbleib
Chief Financial Officer
August 9, 2024

## Consolidated Statement of Condition

(Dollars in Thousands)

| | June 30 2024 | December 31 2023 |
|---|---|---|
| | **UNAUDITED** | AUDITED |
| **ASSETS** | | |
| Loans | **$ 494,546** | $ 481,111 |
| Less allowance for loan losses | **1,229** | 1,165 |
| Net loans | **493,317** | 479,946 |
| Cash | **2,250** | 4,878 |
| Accrued interest receivable | **10,380** | 8,724 |
| Investment in CoBank, ACB | **9,873** | 9,867 |
| Premises and equipment, net | **2,882** | 2,951 |
| Prepaid benefit expense | **3,211** | 3,280 |
| Other assets | **1,757** | 2,753 |
| **Total assets** | **$ 523,670** | $ 512,399 |
| **LIABILITIES** | | |
| Note payable to CoBank, ACB | **$ 391,356** | $ 381,701 |
| Advance conditional payments | **12,826** | 10,763 |
| Accrued interest payable | **940** | 899 |
| Patronage distributions payable | **85** | 5,514 |
| Accrued benefits liability | **78** | 80 |
| Reserve for unfunded commitments | **256** | 217 |
| Other liabilities | **698** | 1,319 |
| **Total liabilities** | **$ 406,239** | $ 400,493 |
| **Commitments and Contingencies** | | |
| **SHAREHOLDERS' EQUITY** | | |
| Capital stock | **721** | 725 |
| Unallocated retained earnings | **116,710** | 111,181 |
| **Total shareholders' equity** | **117,431** | 111,906 |
| **Total liabilities and shareholders' equity** | **$ 523,670** | $ 512,399 |

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

## Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

| | For the three months ended June 30 | | For the six months ended June 30 | |
|---|---|---|---|---|
| UNAUDITED | **2024** | 2023 | **2024** | 2023 |
| **INTEREST INCOME** | | | | |
| Loans | **$ 7,322** | $ 5,741 | **$ 14,393** | $ 11,116 |
| **Total interest income** | **7,322** | 5,741 | **14,393** | 11,116 |
| **INTEREST EXPENSE** | | | | |
| Note payable to CoBank, ACB | **3,462** | 2,205 | **6,722** | 4,117 |
| Other | **46** | 59 | **95** | 114 |
| **Total interest expense** | **3,508** | 2,264 | **6,817** | 4,231 |
| Net interest income | **3,814** | 3,477 | **7,576** | 6,885 |
| Provision for credit losses | **43** | 542 | **101** | 524 |
| Net interest income after provision for credit losses | **3,771** | 2,935 | **7,475** | 6,361 |
| **NONINTEREST INCOME** | | | | |
| Financially related services income | **79** | 78 | **228** | 253 |
| Loan fees | **89** | 45 | **164** | 101 |
| Patronage distribution from Farm Credit institutions | **437** | 362 | **862** | 714 |
| Farm Credit Insurance Fund distribution | **122** | - | **122** | - |
| Mineral income | **56** | 92 | **119** | 167 |
| Other noninterest income | **1** | - | **8** | 10 |
| **Total noninterest income** | **784** | 577 | **1,503** | 1,245 |
| **NONINTEREST EXPENSE** | | | | |
| Salaries and employee benefits | **859** | 839 | **1,594** | 1,586 |
| Occupancy and equipment | **37** | 62 | **123** | 124 |
| Purchased services from AgVantis, Inc. | **363** | 404 | **725** | 809 |
| Farm Credit Insurance Fund premium | **89** | 132 | **179** | 262 |
| Supervisory and examination costs | **48** | 43 | **96** | 86 |
| Other noninterest expense | **359** | 330 | **732** | 557 |
| **Total noninterest expense** | **1,755** | 1,810 | **3,449** | 3,424 |
| **Net income/Comprehensive income** | **$ 2,800** | $ 1,702 | **$ 5,529** | $ 4,182 |

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

## Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

| UNAUDITED | Capital Stock | Unallocated Retained Earnings | Total Shareholders' Equity |
|---|---|---|---|
| **Balance at December 31, 2022** | $ 732 | $ 106,174 | $ 106,906 |
| Comprehensive income | | 4,182 | 4,182 |
| Stock issued | 20 | | 20 |
| Stock retired | (23) | | (23) |
| Cumulative effect of CECL adoption | | 147 | 147 |
| **Balance at June 30, 2023** | $ 729 | $ 110,503 | $ 111,232 |
| | | | |
| **Balance at December 31, 2023** | $ 725 | $ 111,181 | $ 111,906 |
| Comprehensive income | | 5,529 | 5,529 |
| Stock issued | 22 | | 22 |
| Stock retired | (26) | | (26) |
| **Balance at June 30, 2024** | **$ 721** | **$ 116,710** | **$ 117,431** |

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

## NOTES TO FINANCIAL STATEMENTS
(Unaudited)

### NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Farm Credit of Western Kansas, ACA (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2023, are contained in the 2023 Annual Report to Shareholders. These unaudited second quarter 2024 financial statements should be read in conjunction with the 2023 Annual Report to Shareholders.

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 Shareholders.

In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for a fair statement of results for the interim periods, have been made. 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 Shareholders. 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 or Issued 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 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, 2024. 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.

### NOTE 2 - LOANS AND ALLOWANCE FOR CREDIT LOSSES

A summary of loans follows.

| *(dollars in thousands)* | **June 30, 2024** | December 31, 2023 |
|---|---|---|
| Real estate mortgage | **$ 326,676** | $ 331,429 |
| Production and intermediate-term | **112,743** | 101,886 |
| Agribusiness | **29,388** | 27,467 |
| Rural infrastructure | **21,602** | 16,193 |
| Agricultural export finance | **4,137** | 4,136 |
| Total loans | **$ 494,546** | $ 481,111 |

The Association purchases and 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 | |
|---|---|---|
| *(dollars in thousands)* | Purchased | Sold |
| Real estate mortgage | $ 26,188 | $ 23,110 |
| Production and intermediate-term | 25,060 | 5,188 |
| Agribusiness | 28,495 | 895 |
| Rural infrastructure | 21,602 | - |
| Agricultural export finance | 4,137 | - |
| Total | $ 105,482 | $ 29,193 |

**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 institution 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, and/or collateral pledged on the loan.
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions, and values that make collection in full highly questionable.
- 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 | December 31, 2023 |
|---|---|---|
| Real estate mortgage | | |
| Acceptable | **98.72%** | 98.09% |
| OAEM | **1.28%** | 1.26% |
| Substandard | **-** | 0.65% |
| Total | **100.00%** | 100.00% |
| Production and intermediate-term | | |
| Acceptable | **97.98%** | 100.00% |
| Substandard | **2.02%** | - |
| Total | **100.00%** | 100.00% |
| Agribusiness | | |
| Acceptable | **98.81%** | 97.30% |
| Substandard | **1.19%** | 2.70% |
| Total | **100.00%** | 100.00% |
| Rural infrastructure | | |
| Acceptable | **87.62%** | 83.49% |
| OAEM | **12.38%** | 16.51% |
| Total | **100.00%** | 100.00% |
| Agricultural export finance | | |
| Acceptable | **100.00%** | 100.00% |
| Total | **100.00%** | 100.00% |
| Total Loans | | |
| Acceptable | **98.09%** | 97.98% |
| OAEM | **1.38%** | 1.42% |
| Substandard | **0.53%** | 0.60% |
| Total | **100.00%** | 100.00% |

Accrued interest receivable on loans of $10.4 million at June 30, 2024 and $8.7 million at December 31, 2023 has been excluded from the amortized cost of loans and reported separately in the Consolidated Statement of Condition. The Association did not write off any accrued interest receivable during the first six months of 2024 or 2023.

Nonperforming assets consist of nonaccrual loans, accruing loans 90 days or more past due, and other property owned. The following table shows these nonperforming assets and related credit quality statistics as follows:

| *(dollars in thousands)* | June 30, 2024 | December 31, 2023 |
|---|---|---|
| Nonaccrual loans | | |
| Real estate mortgage | **$ 3** | $ 4 |
| Total nonperforming assets | **$ 3** | $ 4 |
| Nonaccrual loans to total loans | **<0.01%** | <0.01% |
| Nonperforming assets to total loans and other property owned | **<0.01%** | <0.01% |
| Nonperforming assets to total shareholders' equity | **<0.01%** | <0.01% |

The Association had no accruing loans 90 days or more past due or other property owned for the periods presented.

The following table provides the amortized cost for nonaccrual loans with and without a related allowance for loan losses:

| *(dollars in thousands)* | **June 30, 2024** | December 31, 2023 |
|---|---|---|
| Nonaccrual loan volume without related allowance for loan losses | **$ 3** | $ 4 |
| Total nonaccrual loans | **$ 3** | $ 4 |

There was no interest income on nonaccrual loans for the three and six months ended June 30, 2024 and June 30, 2023.

The following tables provide an age analysis of past due loans at amortized cost.

| **June 30, 2024** | | | | | | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total Loans | Recorded Investment > 90 Days and Accruing |
| Real estate mortgage | $ 76 | $ - | $ 76 | $ 326,600 | $ 326,676 | $ - |
| Production and intermediate-term | - | - | - | 112,743 | 112,743 | - |
| Agribusiness | - | - | - | 29,388 | 29,388 | - |
| Rural infrastructure | - | - | - | 21,602 | 21,602 | - |
| Agricultural export finance | - | - | - | 4,137 | 4,137 | - |
| Total | $ 76 | $ - | $ 76 | $ 494,470 | $ 494,546 | $ - |

| December 31, 2023 | | | | | | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total Loans | Recorded Investment > 90 Days and Accruing |
| Real estate mortgage | $ 103 | $ - | $ 103 | $ 331,326 | $ 331,429 | $ - |
| Production and intermediate-term | - | - | - | 101,886 | 101,886 | - |
| Agribusiness | - | - | - | 27,467 | 27,467 | - |
| Rural infrastructure | - | - | - | 16,193 | 16,193 | - |
| Agricultural export finance | - | - | - | 4,136 | 4,136 | - |
| Total | $ 103 | $ - | $ 103 | $ 481,008 | $ 481,111 | $ - |

**Loan Modifications to Borrowers Experiencing Financial Difficulty**

The following table shows the amortized cost basis at the end of the respective reporting period for loan modifications granted to borrowers experiencing financial difficulty, disaggregated by loan type and type of modification granted.

| | Term Extension | | | |
|---|---|---|---|---|
| | For the Three Months Ended | | For the Six Months Ended | |
| *(dollars in thousands)* | **June 30, 2024** | % of Portfolio Segment | **June 30, 2024** | % of Portfolio Segment |
| Agribusiness | **$ 349** | 1.19% | **$ 349** | 1.19% |
| Total | **$ 349** | | **$ 349** | |

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty was $3 thousand as of the three and six months ended June 30, 2024.

There were no loan modifications to borrowers experiencing financial difficulty as of the three and six months ended June 30, 2023.

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty during the periods presented.

| | Weighted-Average Term Extension (in months) | |
|---|---|---|
| | For the Three Months Ended June 30, 2024 | For the Six Months Ended June 30, 2024 |
| Agribusiness | 12.6 | 12.6 |

There were no loans to borrowers experiencing financial difficulty that defaulted during the six months ended June 30, 2024 or June 30, 2023 which were modified during the twelve months prior to those periods.

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:

| | Payment Status of Modified Loans **During the Past Twelve Months Ended June 30, 2024** | | |
|---|---|---|---|
| *(dollars in thousands)* | Current | 30-89 Days Past Due | 90 Days or More Past Due |
| Agribusiness | $ 349 | $ - | $ - |
| Total | $ 349 | $ - | $ - |

Additional commitments to lend to borrowers experiencing financial difficulty whose loans have been modified during the six months ended June 30, 2024 were $1.3 million and during the year ended December 31, 2023 were $868 thousand.

The Association had no loans held for sale at June 30, 2024 and December 31, 2023.

**Allowance for Credit Losses**

The allowance for credit losses (ACL) represents the estimated current expected credit losses over the remaining contractual life of the loans measured at amortized cost and certain off-balance sheet credit exposures. The ACL takes into consideration relevant information about past events, current conditions, and reasonable and supportable macroeconomic forecasts of future conditions. The contractual term excludes expected extensions, renewals, and modifications. The Association uses a single economic scenario over a reasonable and supportable forecast period of 12 months. Subsequent to the forecast period, the Association explicitly reverts to long run historical loss experience beyond the 12 months to inform the estimate of losses for the remaining contractual life of the loan portfolio. The economic forecasts are updated on a quarterly basis and incorporate macroeconomic variables such as agricultural commodity prices, unemployment rates, Gross Domestic Product (GDP) annual growth rates, government spending to GDP, real consumer spending, United States exports, inflation, and Fed Funds rates.

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 board of directors has generally established more restrictive lending limits. This limit applies to Associations with long-term and short- and intermediate-term lending authorities.

A summary of changes in the allowance for loan losses is as follows:

| *(dollars in thousands)* | Balance at March 31, 2024 | Charge-offs | Recoveries | Provision for Loan Losses/ (Loan Loss Reversals) | Balance at June 30, 2024 |
|---|---|---|---|---|---|
| Real estate mortgage | $ 816 | $ - | $ - | $ (6) | $ 810 |
| Production and intermediate-term | 226 | - | - | 29 | 255 |
| Agribusiness | 16 | - | - | (3) | 13 |
| Rural infrastructure | 128 | - | - | 21 | 149 |
| Agricultural export finance | 1 | - | - | 1 | 2 |
| Total | $ 1,187 | $ - | $ - | $ 42 | $ 1,229 |

| *(dollars in thousands)* | Balance at December 31, 2023 | Charge-offs | Recoveries | Provision for Loan Losses/ (Loan Loss Reversals) | Balance at June 30, 2024 |
|---|---|---|---|---|---|
| Real estate mortgage | $ 809 | $ - | $ - | $ 1 | $ 810 |
| Production and intermediate-term | 182 | - | - | 73 | 255 |
| Agribusiness | 2 | - | 2 | 9 | 13 |
| Rural infrastructure | 172 | - | - | (23) | 149 |
| Agricultural export finance | - | - | - | 2 | 2 |
| Total | $ 1,165 | $ - | $ 2 | $ 62 | $ 1,229 |

| *(dollars in thousands)* | Balance at March 31, 2023 | Charge-offs | Recoveries | Provision for Loan Losses/ (Loan Loss Reversals) | Balance at June 30, 2023 |
|---|---|---|---|---|---|
| Real estate mortgage | $ 697 | $ - | $ - | $ 87 | $ 784 |
| Production and intermediate-term | 134 | - | - | 26 | 160 |
| Agribusiness | 399 | - | - | 404 | 803 |
| Rural infrastructure | 44 | - | - | 43 | 87 |
| Agricultural export finance | 1 | - | - | (1) | - |
| Total | $ 1,275 | $ - | $ - | $ 559 | $ 1,834 |

| *(dollars in thousands)* | Balance at December 31, 2022 | Cumulative Effect of CECL Adoption | Balance at January 1, 2023 | Charge-offs | Recoveries | Provision for Loan Losses/ (Loan Loss Reversals) | Balance at June 30, 2023 |
|---|---|---|---|---|---|---|---|
| Real estate mortgage | $ 602 | $ 98 | $ 700 | $ - | $ - | $ 84 | $ 784 |
| Production and intermediate-term | 232 | (65) | 167 | - | - | (7) | 160 |
| Agribusiness | 490 | (89) | 401 | - | - | 402 | 803 |
| Rural infrastructure | 65 | (14) | 51 | - | - | 36 | 87 |
| Total | $ 1,389 | $ (70) | $ 1,319 | $ - | $ - | $ 515 | $ 1,834 |

The Association maintains a separate reserve for unfunded commitments, which is included in Liabilities on the Association's Consolidated Statement of Condition. The related provision for the reserve for unfunded commitments is included as part of the provision for credit losses on the Consolidated Statement of Comprehensive Income, along with the provision for loan losses. A summary of changes in the reserve for unfunded commitments follows:

| *(dollars in thousands)* | For the Three Months Ended June 30, 2024 | For the Six Months Ended June 30, 2024 |
|---|---|---|
| Balance at beginning of period | $ 255 | $ 217 |
| Provision for reserve for unfunded commitments | 1 | 39 |
| Total | $ 256 | $ 256 |

| *(dollars in thousands)* | For the Three Months Ended June 30, 2023 | For the Six Months Ended June 30, 2023 |
|---|---|---|
| Balance at beginning of period | $ 251 | $ 302 |
| Cumulative Effect of CECL Adoption | | (77) |
| Balance at January 1 | | $ 225 |
| (Reversal of)/Provision for reserve for unfunded commitments | (17) | 9 |
| Total | $ 234 | $ 234 |

**NOTE 3 – CAPITAL**

A summary of select capital ratios based on a three-month average and minimums set by the Farm Credit Administration follows.

| | **As of June 30, 2024** | As of December 31, 2023 | Regulatory Minimums | Capital Conservation Buffer | Total |
|---|---|---|---|---|---|
| Risk Adjusted: | | | | | |
| Common equity tier 1 ratio | 19.94% | 21.06% | 4.5% | 2.5% | 7.0% |
| Tier 1 capital ratio | 19.94% | 21.06% | 6.0% | 2.5% | 8.5% |
| Total capital ratio | 20.21% | 21.32% | 8.0% | 2.5% | 10.5% |
| Permanent capital ratio | 19.98% | 21.11% | 7.0% | - | 7.0% |
| Non-risk-adjusted: | | | | | |
| Tier 1 leverage ratio | 20.80% | 22.01% | 4.0% | 1.0% | 5.0% |
| Unallocated retained earnings and equivalents leverage ratio | 20.65% | 21.86% | 1.5% | - | 1.5% |

If capital ratios fall below the regulatory minimum plus buffer amounts, capital distributions (equity redemptions, cash dividend payments, and cash patronage payments) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

**NOTE 4 - SUBSEQUENT EVENTS**

The Association has evaluated subsequent events through August 9, 2024, which is the date the financial statements were issued, and no material subsequent events were identified.