Farm Credit Services of Western Arkansas, ACA

Quarterly Report
June 30, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Services of Western Arkansas, ACA and its subsidiaries, Farm Credit Services of Western Arkansas, FLCA and Farm Credit Services of Western Arkansas, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2023 (2023 Annual Report).

Due to the nature of our financial relationship with AgriBank, FCB (AgriBank), the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank financial reports or additional copies of our report, contact us at:

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FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2023 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

Weather conditions at the end of June 2024 were slightly drier than at the end of March 2024. At the end of March 2024 there was only 11.2% of Arkansas showing drought conditions compared to the end of June 2024 when 32.2% of the state was showing drought conditions. There are areas of our territory in northwest Arkansas which are abnormally dry.

According to Express Markets, Inc. (EMI) as of July 2, 2024, the number of broilers processed decreased 4.4% from a year prior to 166.7 million head, with average live weights increasing by 3.0% year over year to 6.6 pounds. Weekly production for the second quarter of 2024 declined 1.9% from the previous year based on current hatchery and production data. Hatchability improved slightly for the week ended June 29, 2024, averaging 79.2% on the United States Department of Agriculture's weekly report.

Based on EMI data for the week ending June 1, 2024, estimated Federally Inspected (F.I.) cattle slaughter was 540,000 head which is 5.0% decrease compared to a year ago. F.I. cattle dressed weights averaged about 852 pounds per head and increased 4.3% compared to the prior year. As of May 1, 2024, there were 11.6 million cattle reported on feed which is a 0.9% decrease compared to a year prior. The number of cattle on feed 180 days or more increased more than 41% compared to prior year levels. This increased number of cattle on feed 180 days or more is contributing to the increase in dressed weights. For the state of Arkansas reporting week ended July 1, 2024, medium and large steers (600-635 pounds) averaged $291.21 per hundredweight.

According to EMI a third dairy farm worker has contracted highly pathogenic avian influenza (HPAI). While the first person to contract it was in Texas, the other two people were in separate Michigan dairies. The threat to the general public remains very low as there has yet to be any human-to-human transmission. WattPoultry reported that the HPAI has been confirmed in two commercial turkey flocks in Minnesota which are the twelfth and thirteenth commercial poultry flocks to be struck by the virus in 2024. According to the Centers for Disease Control and Prevention on April 1, 2024, it was confirmed that one human was infected with HPAI due to exposure with dairy cows in Texas that were presumed to be infected with the virus. This was the first instance of likely mammal to human spread of HPAI virus.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.8 billion at June 30, 2024, an increase of $67.0 million from December 31, 2023.

Portfolio Credit Quality

The credit quality of our portfolio improved from December 31, 2023. Adversely classified loans decreased to 1.1% of the portfolio at June 30, 2024, from 1.3% of the portfolio at December 31, 2023. Adversely classified loans are loans we have identified as showing some credit weakness according to our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for credit losses on loans.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At June 30, 2024, $28.1 million of our loans were substantially guaranteed under these government programs.

Nonperforming Assets

Components of Nonperforming Assets

(dollars in thousands) As of:	**June 30, 2024**	December 31, 2023
Loans:		
Nonaccrual	**$ 11,978**	$ 13,761
Accruing loans 90 days or more past due	**305**	47
Total nonperforming loans	**12,283**	13,808
Other property owned	**1,239**	370
Total nonperforming assets	**$ 13,522**	$ 14,178
Total nonperforming loans as a percentage of total loans	**0.7%**	0.8%
Nonaccrual loans as a percentage of total loans	**0.6%**	0.8%
Current nonaccrual loans as a percentage of total nonaccrual loans	**58.3%**	65.0%
Total delinquencies as a percentage of total loans[1]	**0.6%**	0.5%

[1] Total delinquencies include accrual and nonaccrual loans 30 days or more past due.

Our nonperforming assets have decreased from December 31, 2023, and remained at acceptable levels. Total nonperforming loans as a percentage of total loans were well within our established risk management guidelines.

The decrease in nonaccrual loans and the increase in other property owned was primarily due to one relationship in our capital markets portfolio partially charged-off and subsequently transferred from nonaccrual to other property owned during the second quarter of 2024. Nonaccrual loans remained at an acceptable level at June 30, 2024, and December 31, 2023.

Allowance for Credit Losses on Loans

The allowance for credit losses on loans is an estimate of expected credit losses in our portfolio. We determine the appropriate level of allowance for credit losses on loans based on a disciplined process and methodology that incorporates expected probabilities of default and loss given default based on historical portfolio performance, forecasts of future economic conditions, and management's judgment with respect to unique aspects of current and expected conditions that may not be contemplated in historical loss experience or forecasted economic conditions.

Allowance for Credit Losses on Loans Coverage Ratios

As of:	**June 30, 2024**	December 31, 2023
Allowance for credit losses on loans as a percentage of:		
Loans	**0.2%**	0.2%
Nonaccrual loans	**28.9%**	31.9%
Total nonperforming loans	**28.2%**	31.8%

Total allowance for credit losses on loans was $3.5 million at June 30, 2024, and $4.4 million at December 31, 2023. The decrease from December 31, 2023, was primarily related to a charge-off in our capital markets portfolio.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the six months ended June 30,	**2024**	2023
Net income	**$ 18,798**	$ 15,471
Return on average assets	**1.9%**	1.6%
Return on average members' equity	**9.6%**	8.4%

Changes presented in the profitability information table relate directly to:

- Changes in net income discussed in this section
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity, and Capital section

Changes in Significant Components of Net Income

(in thousands) For the six months ended June 30,	**2024**	2023	**Increase (decrease) in net income**
Net interest income	**$ 28,479**	$ 27,558	**$ 921**
Provision for credit losses	**127**	1,360	**1,233**
Non-interest income	**7,128**	5,377	**1,751**
Non-interest expense	**17,195**	16,433	**(762)**
Benefit from income taxes	**(513)**	(329)	**184**
Net income	**$ 18,798**	$ 15,471	**$ 3,327**

Provision for Credit Losses

The "Provision for credit losses" in the Consolidated Statements of Income includes a provision for credit losses on loans as well as a provision for (reversal of) credit losses on unfunded commitments. The provision for credit losses recorded for the period ended June 30, 2024, was $127 thousand and was primarily due to an increase in general reserves. While the provision for credit losses for the period ended June 30, 2023, was $1.4 million and was primarily due to specific reserves being established for certain loans in our capital markets portfolio.

Non-Interest Income

The change in non-interest income was primarily due to other non-interest income and patronage income.

Other Non-Interest Income: The increase in other non-interest income was primarily due to a net gain, which includes a loss on sale of assets presented as non-interest expense, of approximately $700 thousand related to the sale of our corporate headquarters. We are working on the completion of a new corporate headquarters campus to allow for growth in employee counts as well additional space for board meetings and employee training. We anticipate moving to the new campus in August 2024 and continue to rent our previous corporate headquarters until then. In addition, other non-interest income increased due to our share of the Allocated Insurance Reserve Accounts (AIRA) distribution received from the Farm Credit System Insurance Corporation (FCSIC) of $527 thousand. The AIRA was established by FCSIC when premiums collected increased the level of the Farm Credit Insurance Fund beyond the required 2% of insured debt. There was no AIRA distribution in 2023. Refer to the 2023 Annual Report for additional information about the FCSIC.

Patronage Income: We may receive patronage from AgriBank and other Farm Credit institutions. Patronage distributions from AgriBank and other Farm Credit institutions are declared solely at the discretion of each institution's Board of Directors. AgriBank may distribute patronage in the form of cash or stock. All other patronage from other Farm Credit institutions is typically distributed in cash.

Patronage Income

(in thousands) For the six months ended June 30,	**2024**	2023
Patronage from AgriBank	**$ 3,851**	$ 3,624
AgDirect partnership distribution	**140**	144
Other patronage	**45**	6
Total patronage income	**$ 4,036**	$ 3,774

Patronage from AgriBank primarily includes wholesale patronage and asset pool program patronage.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable was scheduled to mature on May 31, 2025. However, it was renewed early for $2.0 billion with a maturity date of May 31, 2027. We intend to renegotiate the note payable no later than the maturity date. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. However, we maintain some exposure to interest rates, primarily from loans to customers which may not have a component of our line of credit with an exact repricing attribute. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

The components of cost of funds associated with our note payable include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

We were not subject to a risk premium at June 30, 2024, or December 31, 2023.

Total members' equity increased $13.6 million from December 31, 2023, primarily due to net income for the period, partially offset by patronage distribution accruals.

The Farm Credit Administration (FCA) Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 6 in our 2023 Annual Report for a more complete description of these ratios.

Regulatory Capital Requirements and Ratios

As of:	**June 30, 2024**	December 31, 2023	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**17.7%**	17.9%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**17.7%**	17.9%	6.0%	2.5%	8.5%
Total capital ratio	**18.0%**	18.2%	8.0%	2.5%	10.5%
Permanent capital ratio	**17.8%**	17.9%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**17.7%**	18.1%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**17.4%**	17.7%	1.5%	N/A	1.5%

Capital ratios are directly impacted by the changes in capital, as more fully explained in this section, the changes in assets, as discussed in the Loan Portfolio section, and off-balance sheet commitments, as disclosed in Note 10 in our 2023 Annual Report.

CERTIFICATION

The undersigned have reviewed the June 30, 2024, Quarterly Report of Farm Credit Services of Western Arkansas, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Cody Jones
Chairperson of the Board
Farm Credit Services of Western Arkansas, ACA

Brandon Haberer
President and Chief Executive Officer
Farm Credit Services of Western Arkansas, ACA

Lori Schumacher

Lori Schumacher
Senior Vice President of Finance and Chief Financial Officer
Farm Credit Services of Western Arkansas, ACA

August 8, 2024

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Services of Western Arkansas, ACA
(in thousands)

As of:		June 30, 2024		December 31, 2023
		(Unaudited)		
ASSETS				
Loans	**$**	**1,845,603**	$	1,778,612
Allowance for credit losses on loans		**3,459**		4,390
Net loans		**1,842,144**		1,774,222
Investment in AgriBank, FCB		**60,610**		60,610
Accrued interest receivable		**16,640**		14,913
Other assets		**38,679**		33,331
Total assets	**$**	**1,958,073**	$	1,883,076
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**1,520,215**	$	1,445,252
Accrued interest payable		**14,220**		13,336
Deferred tax liabilities, net		**290**		145
Patronage distribution payable		**5,250**		11,700
Other liabilities		**21,206**		29,317
Total liabilities		**1,561,181**		1,499,750
Contingencies and commitments (Note 3)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**6,221**		6,232
Unallocated surplus		**390,671**		377,094
Total members' equity		**396,892**		383,326
Total liabilities and members' equity	**$**	**1,958,073**	$	1,883,076

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

Farm Credit Services of Western Arkansas, ACA
(in thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
For the period ended June 30,	**2024**	2023	**2024**	2023
Interest income	**$ 28,501**	$ 25,966	**$ 56,244**	$ 50,846
Interest expense	**14,220**	12,146	**27,765**	23,288
Net interest income	**14,281**	13,820	**28,479**	27,558
Provision for credit losses	**34**	550	**127**	1,360
Net interest income after provision for credit losses	**14,247**	13,270	**28,352**	26,198
Non-interest income				
Patronage income	**2,036**	1,894	**4,036**	3,774
Financially related services income	**1**	3	**7**	5
Fee income	**858**	774	**1,549**	1,434
Other non-interest income	**1,465**	144	**1,536**	164
Total non-interest income	**4,360**	2,815	**7,128**	5,377
Non-interest expense				
Salaries and employee benefits	**4,948**	4,830	**10,004**	9,456
Other operating expense	**3,753**	3,724	**6,900**	6,977
Other non-interest expense	**291**	--	**291**	--
Total non-interest expense	**8,992**	8,554	**17,195**	16,433
Income before income taxes	**9,615**	7,531	**18,285**	15,142
Benefit from income taxes	**(290)**	(257)	**(513)**	(329)
Net income	**$ 9,905**	$ 7,788	**$ 18,798**	$ 15,471

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Services of Western Arkansas, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2022	$ 6,118	$ 357,061	$ 363,179
Cumulative effect of change in accounting principle	--	(321)	(321)
Net income	--	15,471	15,471
Unallocated surplus designated for patronage distributions	--	(5,499)	(5,499)
Capital stock and participation certificates issued	297	--	297
Capital stock and participation certificates retired	(244)	--	(244)
Balance at June 30, 2023	$ 6,171	$ 366,712	$ 372,883
Balance at December 31, 2023	$ 6,232	$ 377,094	$ 383,326
Net income	**--**	**18,798**	**18,798**
Unallocated surplus designated for patronage distributions	**--**	**(5,221)**	**(5,221)**
Capital stock and participation certificates issued	**280**	**--**	**280**
Capital stock and participation certificates retired	**(291)**	**--**	**(291)**
Balance at June 30, 2024	**$ 6,221**	**$ 390,671**	**$ 396,892**

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim financial information and conform to generally accepted accounting principles in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the six months ended June 30, 2024, are not necessarily indicative of the results to be expected for the year ending December 31, 2024. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2023 (2023 Annual Report).

Principles of Consolidation

The Consolidated Financial Statements present the consolidated financial results of Farm Credit Services of Western Arkansas, ACA and its subsidiaries Farm Credit Services of Western Arkansas, FLCA and Farm Credit Services of Western Arkansas, PCA. All material intercompany transactions and balances have been eliminated in consolidation.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic business entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements in alignment with other System institutions.

Standard and effective date	Description	Adoption status and financial statement impact
In December 2023, the FASB issued Accounting Standards Update 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." This guidance is effective for annual periods beginning after December 15, 2025.	This guidance requires more transparency about income tax information through improvements to income tax disclosures. The improvements applicable to our Association will require adding percentages and information by state jurisdiction to the rate reconciliation and income taxes paid disclosures.	We expect to adopt the standard as of January 1, 2026. The adoption of this guidance is not expected to have a material impact on our financial statements, but will modify certain disclosures.

NOTE 2: LOANS AND ALLOWANCE FOR CREDIT LOSSES ON LOANS

Throughout Note 2 accrued interest receivable on loans of $16.7 million at June 30, 2024, and $14.9 million at December 31, 2023, has been excluded from the amortized cost of loans and is presented in "Accrued interest receivable" in the Consolidated Statements of Condition.

Loans by Type

(dollars in thousands)

As of:	**June 30, 2024**		December 31, 2023	
	Amortized Cost	%	Amortized Cost	%
Real estate mortgage	**$ 1,188,241**	**64.3%**	$ 1,138,184	64.0%
Production and intermediate-term	**196,860**	**10.7%**	206,700	11.6%
Agribusiness	**331,954**	**18.0%**	310,579	17.5%
Other	**128,548**	**7.0%**	123,149	6.9%
Total	**$ 1,845,603**	**100.0%**	$ 1,778,612	100.0%

The other category is primarily composed of rural infrastructure and rural residential real estate related loans.

Delinquency

Aging Analysis of Loans at Amortized Cost

(in thousands) **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	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$ 7,186**	**$ 2,473**	**$ 9,659**	**$ 1,178,582**	**$ 1,188,241**	**$ 305**
Production and intermediate-term	**689**	**1,142**	**1,831**	**195,029**	**196,860**	**--**
Agribusiness	**--**	**--**	**--**	**331,954**	**331,954**	**--**
Other	**26**	**--**	**26**	**128,522**	**128,548**	**--**
Total	**$ 7,901**	**$ 3,615**	**$ 11,516**	**$ 1,834,087**	**$ 1,845,603**	**$ 305**

As of December 31, 2023	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 3,942	$ 2,585	$ 6,527	$ 1,131,657	$ 1,138,184	$ --
Production and intermediate-term	1,208	1,181	2,389	204,311	206,700	47
Agribusiness	--	--	--	310,579	310,579	--
Other	--	--	--	123,149	123,149	--
Total	$ 5,150	$ 3,766	$ 8,916	$ 1,769,696	$ 1,778,612	$ 47

Nonaccrual Loans

Nonaccrual Loans Information

	As of June 30, 2024		For the Six Months Ended June 30, 2024
(in thousands)	Amortized Cost	Amortized Cost Without Allowance	Interest Income Recognized
Nonaccrual loans:			
Real estate mortgage	**$ 7,299**	**$ 6,223**	**$ 323**
Production and intermediate-term	**1,554**	**1,403**	**82**
Agribusiness	**2,985**	**2,985**	**--**
Other	**140**	**25**	**1**
Total	**$ 11,978**	**$ 10,636**	**$ 406**

	As of December 31, 2023		For the Six Months Ended June 30, 2023
	Amortized Cost	Amortized Cost Without Allowance	Interest Income Recognized
Nonaccrual loans:			
Real estate mortgage	$ 7,932	$ 6,876	$ 193
Production and intermediate-term	5,668	1,096	14
Other	161	28	--
Total	$ 13,761	$ 8,000	$ 207

Reversals of interest income on loans that transferred to nonaccrual status were not material for the six months ended June 30, 2024, or 2023.

Loan Modifications Granted to Borrowers Experiencing Financial Difficulty

Included within our loans are loan modifications; some of which are granted to borrowers experiencing financial difficulty. Modifications are one or a combination of principal forgiveness, interest rate reduction, other-than-insignificant term extension, or other-than-insignificant payment deferrals. Other-than-insignificant term extensions are defined as those greater than or equal to six months. Covenant waivers and modifications of contingent acceleration clauses are not considered term extensions. Other-than-insignificant payment deferrals are defined as cumulative or individual payment delays greater than or equal to six months.

There were no loan modifications at amortized cost for the six months ended June 30, 2024. This excludes loans that were modified during the period, but were paid off or sold prior to period end.

Loan Modifications at Amortized Cost[1]

(dollars in thousands) For the six months ended June 30, 2023	Interest Rate Reduction	Term Extension	Total	Percentage of Total Loans
Real estate mortgage	$ 135	$ 375	$ 510	0.0%
Production and intermediate-term	--	332	332	0.0%
Agribusiness	--	985	985	0.1%
Total	$ 135	$ 1,692	$ 1,827	0.1%
Loan modifications granted as a percentage of total loans	0.0%	0.1%	0.1%	

[1]Excludes loans that were modified during the period, but were paid off or sold prior to period end.

Financial Effect of Loan Modifications

For the six months ended June 30, 2024	Weighted Average Interest Rate Reduction (%)	Weighted Average Term Extension (months)	Principal Forgiveness ($ in thousands)
Production and intermediate-term			
Principal forgiveness			**1,567**

For the six months ended June 30, 2023	Weighted Average Interest Rate Reduction (%)	Weighted Average Term Extension (months)	Principal Forgiveness ($ in thousands)
Real estate mortgage			
Interest rate reduction	1.0%		
Term extension		21	
Principal forgiveness			54
Production and intermediate-term			
Term extension		12	
Principal forgiveness			340
Agribusiness			
Term extension		30	

There were no loans to borrowers experiencing financial difficulty that defaulted during the six months ended June 30, 2024, or 2023, in which the modifications were within twelve months preceding the default.

The following table presents the payment status at amortized cost of loans that have been modified for borrowers experiencing financial difficulty within twelve months of the respective reporting period.

Payment Status of Loan Modifications[1]

(in thousands) **As of June 30, 2024**	Not Past Due or Less Than 30 Days Past Due	30-89 Days Past Due	90 Days or More Past Due	Total
Agribusiness	**$ 1,269**	**$ --**	**$ --**	**$ 1,269**
Total	**$ 1,269**	**$ --**	**$ --**	**$ 1,269**

As of June 30, 2023	Not Past Due or Less Than 30 Days Past Due	30-89 Days Past Due	90 Days or More Past Due	Total
Real estate mortgage	$ 510	$ --	$ --	$ 510
Production and intermediate-term	325	8	--	333
Agribusiness	984	--	--	984
Total	$ 1,819	$ 8	$ --	$ 1,827

[1]Excludes loans that were modified during the period, but were paid off or sold prior to period end.

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty was not material at June 30, 2024, or 2023.

There were no material commitments at June 30, 2024, or December 31, 2023, to lend to borrowers experiencing financial difficulty whose loans were modified during the six months ended June 30, 2024, or during the year ended December 31, 2023, respectively.

Allowance for Credit Losses

Our loan portfolio is divided into segments primarily based on loan type which are the segments used to estimate the allowance for credit losses. As our lending authorities limit the types of loans we can originate, our portfolio is concentrated in the agriculture sector. The credit risk associated with each of our portfolio segments includes a strong correlation to agricultural commodity prices and input costs. Specifically for our real estate mortgage segment, the value of poultry houses and agricultural land that serves as collateral is a key risk characteristic. Additionally, unemployment rates and gross domestic product levels are additional key risk characteristics attributable to our portfolio. We consider these characteristics, among others, in assigning internal risk ratings and forecasting credit losses on our loan portfolio and related unfunded commitments.

We develop our reasonable and supportable forecast by considering a multitude of macroeconomic variables. Our forecasts of U.S. net farm income, U.S. real gross domestic product, and the U.S. unemployment rate represent the key macroeconomic variables that most significantly affect the estimate of the allowance for credit losses on loans and unfunded commitments.

We utilize a single macroeconomic scenario in the estimate of the allowance for credit losses on loans and unfunded commitments which represents the most probable forecasted outcome. Subsequent changes in the macroeconomic forecasts will be reflected in the provision for credit losses in future periods.

Changes in Allowance for Credit Losses

(in thousands)

Six months ended June 30,		**2024**		2023
Allowance for Credit Losses on Loans				
Balance at beginning of period	**$**	**4,390**	$	3,360
Cumulative effect of change in accounting principle		**--**		126
Provision for credit losses on loans		**69**		1,386
Loan recoveries		**13**		165
Loan charge-offs		**(1,013)**		(179)
Balance at end of period	**$**	**3,459**	$	4,858
Allowance for Credit Losses on Unfunded Commitments				
Balance at beginning of period	**$**	**567**	$	337
Cumulative effect of change in accounting principle		**--**		184
Provision for credit losses on unfunded commitments		**58**		(26)
Balance at end of period	**$**	**625**	$	495
Total allowance for credit losses	**$**	**4,084**	$	5,353

The change in the allowance for credit losses on loans from December 31, 2023, was primarily driven by a charge-off in our capital markets portfolio.

NOTE 3: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

Refer to Note 10 in our 2023 Annual Report for additional detail regarding contingencies and commitments.

NOTE 4: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 in our 2023 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at June 30, 2024, or December 31, 2023.

Non-Recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-Recurring Basis

(in thousands)

As of June 30, 2024	Fair Value Measurement Using						Total Fair
		Level 1		Level 2		Level 3	Value
Loans	**$**	**--**	**$**	**--**	**$**	**791**	**$ 791**
Other property owned		**--**		**--**		**1,425**	**1,425**

As of December 31, 2023	Fair Value Measurement Using						Total Fair
		Level 1		Level 2		Level 3	Value
Loans	$	--	$	--	$	4,089	$ 4,089
Other property owned		--		--		426	426

Valuation Techniques

Loans: Represents the carrying amount of loans evaluated individually for credit losses and deemed to be collateral dependent. The carrying value amount is based on the estimated value of the underlying collateral, less costs to sell. When the fair value of the collateral, less costs to sell, is less than the amortized cost basis of the loan, a specific allowance for expected credit losses is established. Costs to sell represent transaction costs and are not included as a component of the collateral's estimated fair value. Typically, the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters and, therefore, are classified as Level 3 fair value measurements.

Other Property Owned: Represents the fair value of foreclosed assets measured based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, they are classified as Level 3.

NOTE 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 8, 2024, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.