AgHeritage Farm Credit Services, 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 AgHeritage Farm Credit Services, ACA and its subsidiaries, AgHeritage Farm Credit Services, FLCA and AgHeritage Farm Credit Services, 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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119 East Third Street, Suite 200
Little Rock, AR 72201
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AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
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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

We generally experienced good growing conditions and favorable harvest weather for the 2023 crop. Given these conditions, we generally had above average yields for crops grown in our area, and the majority of our row crop borrowers had positive cash flows. Commodity prices have trended lower, but input costs have trended lower as well, but to a lesser degree. Given these conditions, we expect the realization of positive cash flows for our borrowers to be more challenging for the 2024 crop. With strong balance sheets going into the 2024 crop we do not expect a significant decline in credit quality. Land values in our area are stable to higher as compared to the prior year.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $2.3 billion at June 30, 2024, an increase of $207.2 million from December 31, 2023. The increase was primarily due to growth in the production and intermediate-term and real estate mortgage loan portfolios.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2023. Adversely classified loans increased slightly to 1.7% of the portfolio at June 30, 2024, from 1.5% 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, $26.8 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	**$ 12,657**	$ 8,991
Accruing loans 90 days or more past due	**--**	255
Total nonperforming loans	**12,657**	9,246
Other property owned	**860**	--
Total nonperforming assets	**$ 13,517**	$ 9,246
Total nonperforming loans as a percentage of total loans	**0.5%**	0.4%
Nonaccrual loans as a percentage of total loans	**0.5%**	0.4%
Current nonaccrual loans as a percentage of total nonaccrual loans	**46.5%**	89.1%
Total delinquencies as a percentage of total loans[1]	**0.5%**	0.2%

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

Our nonperforming assets have increased from December 31, 2023, but remained at acceptable levels. Despite the increase in nonperforming assets, total nonperforming loans as a percentage of total loans were well within our established risk management guidelines.

The increase in nonaccrual loans was primarily due to three relationships in the agribusiness and production and intermediate-term loan types that transferred to nonaccrual during the period ended June 30, 2024. This increase was partially offset by one nonaccrual production and intermediate-term relationship that was partially charged-off and subsequently transferred to other property owned during the period ended June 30, 2024. Nonaccrual loans remained at an acceptable level at June 30, 2024, and December 31, 2023.

The increase in other property owned was due to the nonaccrual production and intermediate-term relationship noted above that transferred to other property owned during the period ended June 30, 2024.

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	**0.3%**	0.3%
Nonaccrual loans	**51.3%**	65.9%
Total nonperforming loans	**51.3%**	64.1%

Total allowance for credit losses on loans was $6.5 million at June 30, 2024, and $5.9 million at December 31, 2023. The increase from December 31, 2023, was primarily related to an increase in the general reserves for real estate and production and intermediate-term loans primarily due to growth in the portfolio and a slight decline in credit quality as well as specific reserves established for two production and intermediate-term loans. This increase was partially offset by a charge-off on one production and intermediate-term relationship.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the six months ended June 30,	**2024**	2023
Net income	**$ 25,189**	$ 20,222
Return on average assets	**2.2%**	1.8%
Return on average members' equity	**10.6%**	9.2%

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	**$**	**32,842**	$	29,964	**$**	**2,878**
Provision for credit losses		**1,640**		2,262		**622**
Non-interest income		**8,510**		6,714		**1,796**
Non-interest expense		**14,030**		13,757		**(273)**
Provision for income taxes		**493**		437		**(56)**
Net income	**$**	**25,189**	$	20,222	**$**	**4,967**

Provision for Credit Losses

The "Provision for credit losses" in the Consolidated Statements of Comprehensive Income includes a provision for credit losses on loans as well as a provision for credit losses on unfunded commitments. The provision for credit losses for the period ended June 30, 2024, was $1.6 million and was primarily due to an increase in the general reserves for real estate and production and intermediate-term loans. There were also specific reserves established for two production and intermediate-term loans that transferred to nonaccrual during the period ended June 30, 2024. This is compared to a provision for credit losses of $2.3 million for the period ended June 30, 2023, which was primarily due to specific reserves being established for certain loans in our capital markets portfolio and an increase in the general reserves for production and intermediate-term loans.

Non-Interest Income

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

Fee Income: The increase in fee income was primarily due to an increase in loan origination and pool program servicing fees.

Other Non-Interest Income: The increase in other non-interest income was primarily due to our share of the Allocated Insurance Reserve Accounts (AIRA) distribution received from the Farm Credit System Insurance Corporation (FCSIC) of $643 thousand during the period ended June 30, 2024. 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	**$**	**5,181**	$	4,577
Other patronage		**46**		86
Total patronage income	**$**	**5,227**	$	4,663

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 is scheduled to mature on May 31, 2026. 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 $19.7 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	**16.3%**	16.1%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**16.3%**	16.1%	6.0%	2.5%	8.5%
Total capital ratio	**16.6%**	16.4%	8.0%	2.5%	10.5%
Permanent capital ratio	**16.3%**	16.2%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**17.8%**	17.6%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**17.7%**	17.5%	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 AgHeritage Farm Credit Services, 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.

Jerry Burkett
Chairperson of the Board
AgHeritage Farm Credit Services, ACA

Gregory W. Cole
President and Chief Executive Officer
AgHeritage Farm Credit Services, ACA

Kenneth L. Sumner
Executive Vice President and Chief Financial Officer
AgHeritage Farm Credit Services, ACA

August 9, 2024

CONSOLIDATED STATEMENTS OF CONDITION

AgHeritage Farm Credit Services, ACA
(in thousands)

As of:		June 30, 2024		December 31, 2023
		(Unaudited)		
ASSETS				
Loans	**$**	**2,332,276**	$	2,125,055
Allowance for credit losses on loans		**6,494**		5,925
Net loans		**2,325,782**		2,119,130
Investment in AgriBank, FCB		**75,520**		77,478
Investment securities		**26**		50
Accrued interest receivable		**33,031**		39,348
Deferred tax assets, net		**367**		47
Other assets		**23,289**		21,082
Total assets	**$**	**2,458,015**	$	2,257,135
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**1,943,172**	$	1,754,863
Accrued interest payable		**17,867**		16,937
Patronage distribution payable		**5,415**		10,000
Other liabilities		**6,461**		9,943
Total liabilities		**1,972,915**		1,791,743
Contingencies and commitments (Note 3)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**3,541**		3,632
Unallocated surplus		**482,149**		462,378
Accumulated other comprehensive loss		**(590)**		(618)
Total members' equity		**485,100**		465,392
Total liabilities and members' equity	**$**	**2,458,015**	$	2,257,135

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

AgHeritage Farm Credit Services, ACA
(in thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
For the period ended June 30,	**2024**	2023	**2024**	2023
Interest income	**$ 34,865**	$ 30,251	**$ 67,053**	$ 57,953
Interest expense	**17,867**	14,979	**34,211**	27,989
Net interest income	**16,998**	15,272	**32,842**	29,964
Provision for credit losses	**717**	922	**1,640**	2,262
Net interest income after provision for credit losses	**16,281**	14,350	**31,202**	27,702
Non-interest income				
Patronage income	**2,741**	2,315	**5,227**	4,663
Financially related services income	**11**	11	**21**	37
Fee income	**1,186**	967	**2,475**	1,747
Other non-interest income	**688**	240	**787**	267
Total non-interest income	**4,626**	3,533	**8,510**	6,714
Non-interest expense				
Salaries and employee benefits	**3,413**	3,530	**6,903**	7,045
Other operating expense	**3,558**	3,325	**7,124**	6,697
Other non-interest expense	**3**	15	**3**	15
Total non-interest expense	**6,974**	6,870	**14,030**	13,757
Income before income taxes	**13,933**	11,013	**25,682**	20,659
Provision for income taxes	**360**	177	**493**	437
Net income	**$ 13,573**	$ 10,836	**$ 25,189**	$ 20,222
Other comprehensive income				
Employee benefit plans activity	**$ 14**	$ 23	**$ 28**	$ 46
Total other comprehensive income	**14**	23	**28**	46
Comprehensive income	**$ 13,587**	$ 10,859	**$ 25,217**	$ 20,268

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

AgHeritage Farm Credit Services, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2022	$ 3,514	$ 419,681	$ (826)	$ 422,369
Cumulative effect of change in accounting principle	--	6,151	--	6,151
Net income	--	20,222	--	20,222
Other comprehensive income	--	--	46	46
Unallocated surplus designated for patronage distributions	--	(4,044)	--	(4,044)
Capital stock and participation certificates issued	118	--	--	118
Capital stock and participation certificates retired	(111)	--	--	(111)
Balance at June 30, 2023	$ 3,521	$ 442,010	$ (780)	$ 444,751
Balance at December 31, 2023	$ 3,632	$ 462,378	$ (618)	$ 465,392
Net income	**--**	**25,189**	**--**	**25,189**
Other comprehensive income	**--**	**--**	**28**	**28**
Unallocated surplus designated for patronage distributions	**--**	**(5,418)**	**--**	**(5,418)**
Capital stock and participation certificates issued	**224**	**--**	**--**	**224**
Capital stock and participation certificates retired	**(315)**	**--**	**--**	**(315)**
Balance at June 30, 2024	**$ 3,541**	**$ 482,149**	**$ (590)**	**$ 485,100**

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 AgHeritage Farm Credit Services, ACA and its subsidiaries AgHeritage Farm Credit Services, FLCA and AgHeritage Farm Credit Services, 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 $33.0 million at June 30, 2024, and $39.3 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	**$ 1,165,899**	**50.0%**	$ 1,099,108	51.7%
Production and intermediate-term	**558,606**	**24.0%**	468,026	22.0%
Agribusiness	**497,852**	**21.3%**	458,072	21.6%
Other	**109,919**	**4.7%**	99,849	4.7%
Total	**$ 2,332,276**	**100.0%**	$ 2,125,055	100.0%

The other category is primarily composed of rural infrastructure and rural residential real estate 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	**$ 2,621**	**$ 3,704**	**$ 6,325**	**$ 1,159,574**	**$ 1,165,899**	**$ --**
Production and intermediate-term	**2,052**	**1,429**	**3,481**	**555,125**	**558,606**	**--**
Agribusiness	**39**	**1,356**	**1,395**	**496,457**	**497,852**	**--**
Other	**258**	**--**	**258**	**109,661**	**109,919**	**--**
Total	**$ 4,970**	**$ 6,489**	**$ 11,459**	**$ 2,320,817**	**$ 2,332,276**	**$ --**

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	$ 3,157	$ 158	$ 3,315	$ 1,095,793	$ 1,099,108	$ --
Production and intermediate-term	928	12	940	467,086	468,026	--
Agribusiness	--	15	15	458,057	458,072	--
Other	311	255	566	99,283	99,849	255
Total	$ 4,396	$ 440	$ 4,836	$ 2,120,219	$ 2,125,055	$ 255

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	**$ 4,533**	**$ 4,531**	**$ 57**
Production and intermediate-term	**2,669**	**311**	**19**
Agribusiness	**5,237**	**3,842**	**344**
Other	**218**	**218**	**6**
Total	**$ 12,657**	**$ 8,902**	**$ 426**

	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	$ 4,080	$ 4,080	$ 22
Production and intermediate-term	4,481	123	--
Agribusiness	34	34	--
Other	396	395	2
Total	$ 8,991	$ 4,632	$ 24

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.

Loan Modifications at Amortized Cost[1]

(dollars in thousands) **For the six months ended June 30, 2024**	Term Extension	Combination - Interest Rate Reduction and Term Extension	Total	Percentage of Total Loans
Production and intermediate-term	**$ 6,370**	**$ 269**	**$ 6,639**	**0.3%**
Agribusiness	**523**	**--**	**523**	**0.0%**
Total	**$ 6,893**	**$ 269**	**$ 7,162**	**0.3%**
Loan modifications granted as a percentage of total loans	**0.3%**	**0.0%**	**0.3%**	

For the six months ended June 30, 2023	Term Extension	Combination - Interest Rate Reduction and Term Extension	Total	Percentage of Total Loans
Production and intermediate-term	$ 6,031	$ --	$ 6,031	0.3%
Agribusiness	1,974	--	1,974	0.1%
Total	$ 8,005	$ --	$ 8,005	0.4%
Loan modifications granted as a percentage of total loans	0.4%	--	0.4%	

[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)
Production and intermediate-term		
Term extension		**9**
Combination - interest rate reduction and term extension	**2.6%**	**84**
Agribusiness		
Term extension		**12**

For the six months ended June 30, 2023	Weighted Average Interest Rate Reduction (%)	Weighted Average Term Extension (months)
Production and intermediate-term		
Term extension		12
Agribusiness		
Term extension		30

We had loans to borrowers experiencing financial difficulty with term extension in the production and intermediate-term loan category of $171 thousand that defaulted during the six months ended June 30, 2024, in which the modifications were within the twelve months preceding the default. There were no loans to borrowers experiencing financial difficulty that defaulted during the six months ended June 30, 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
Real estate mortgage	**$ 247**	**$ --**	**$ --**	**$ 247**
Production and intermediate-term	**6,455**	**--**	**171**	**6,626**
Agribusiness	**2,513**	**--**	**--**	**2,513**
Total	**$ 9,215**	**$ --**	**$ 171**	**$ 9,386**

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
Production and intermediate-term	$ 6,031	$ --	$ --	$ 6,031
Agribusiness	1,974	--	--	1,974
Total	$ 8,005	$ --	$ --	$ 8,005

[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.

Additional commitments were $4.2 million at June 30, 2024, and $3.3 million at December 31, 2023, to lend to borrowers experiencing financial difficulty whose loans were modified during the six months ended June 30, 2024, and 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 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	**$ 5,925**	$ 11,295
Cumulative effect of change in accounting principle	**--**	(6,784)
Provision for credit losses on loans	**1,519**	2,071
Loan recoveries	**24**	2
Loan charge-offs	**(974)**	--
Balance at end of period	**$ 6,494**	$ 6,584
Allowance for Credit Losses on Unfunded Commitments		
Balance at beginning of period	**$ 633**	$ 238
Cumulative effect of change in accounting principle	**--**	140
Provision for credit losses on unfunded commitments	**121**	191
Balance at end of period	**$ 754**	$ 569
Total allowance for credit losses	**$ 7,248**	$ 7,153

The change in the allowance for credit losses on loans from December 31, 2023, was primarily driven by the provision for credit losses on loans and loan charge-offs. The provision for credit losses on loans for the period ended June 30, 2024, was primarily related to an increase in the general reserves for real estate and production and intermediate-term loans primarily due to growth in the portfolio and a slight decline in credit quality as well as specific reserves established for production and intermediate-term loans. Loan charge-offs for the period ended June 30, 2024, were primarily driven by a charge-off on one production and intermediate-term relationship.

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	**$ --**	**$ --**	**$ 3,171**	**$ 3,171**
Other property owned	**--**	**--**	**894**	**894**

As of December 31, 2023	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Loans	$ --	$ --	$ 3,381	$ 3,381
Other property owned	--	--	--	--

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 9, 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.