# Second Quarter Financial Report June 30, 2024

FRONTIER
FARM CREDIT
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## Frontier Farm Credit, ACA

## Management's Discussion and Analysis of Financial Condition and Results of Operations

The following commentary reviews the consolidated financial position and consolidated results of operations of Frontier Farm Credit, ACA, and its subsidiaries Frontier Farm Credit, FLCA and Frontier Farm Credit, PCA. The accompanying consolidated financial statements and notes also contain important information about our unaudited financial position and results of operations. You should also read our 2023 Annual Report for a description of our organization, operations and significant accounting policies.

Due to the nature of our financial relationship with CoBank, ACB, the financial condition and results of operations of CoBank, ACB may materially affect our shareholders' investment in Frontier Farm Credit, ACA. To request a free copy of the CoBank, ACB financial reports, contact us at PO Box 2409, Omaha, NE 68103-2409, (800) 531-3905 or via email to $sr@frontierfarmcredit.com. You may also obtain copies by accessing CoBank, ACB's website at www.cobank.com.

**Notice of Significant or Material Events**

The Boards of Directors of Frontier Farm Credit, ACA, AgCountry Farm Credit Services, ACA, and Farm Credit Services of America, ACA, entered into an agreement with an effective date of December 29, 2023. Beginning April 15, 2024, the three associations are jointly managed and share income and losses. The associations will deploy a common business approach to the development and delivery of products and services and use common technology platforms which accommodate differences in local marketplace conditions. While the associations are jointly managed and will operate under jointly developed strategic business plans and support plans, they remain separate organizations with strong local representation through independent boards of directors and distinct patronage programs. The collaboration is designed to benefit the farmers and ranchers who own and support the three financial services cooperatives by ensuring that all three associations have the strength and capacity to serve agricultural customers' needs for years to come.

Under the collaboration agreement, the three associations have agreed to share net income and losses based on a formula derived from the average net income/losses of each association from the previous five years including 2019 thru 2023. Therefore, the income/losses will be allocated as follows: Frontier Farm Credit (4.9 percent), AgCountry Farm Credit Services (21.3 percent), and Farm Credit Services of America (73.8 percent). Given such allocation methodology, income and losses that are generally specific to each of the associations will effectively be shared in proportion to the allocation formula. The allocation methodology in effect will continue to be applied until the boards mutually agree to any changes in the methodology to be used for the next allocation period starting on January 1, 2028.

**Forward-Looking Information**

Any forward-looking statements in this Quarterly Financial 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.

**Commodity Review and Outlook Update**

The Frontier Farm Credit Appraisal team monitors real estate value trends through semi-annual appraisals of seven benchmark farms in eastern Kansas. The Appraisal team updates benchmark farm values based on the most recently reported real estate sales on January 1st and July 1st each year.

For the first six months of 2024, there was an overall increase of 2.2 percent in the benchmark values and in the twelve months ended June 30, 2024 there was a 9.6 percent increase.

Major factors influencing the market include decreasing commodity prices, profitability in cow/calf sector, limited supply of agricultural real estate, and stabilized interest rates. Our data shows the majority of agricultural real estate is being purchased by farmers and ranchers.

Corn prices trended lower in the second quarter as higher acreage and stocks impacted corn futures. While United States corn use is expected to rise for the 2024 crop, it likely will not be enough to offset growth in total supply. USDA adjusted 2024 corn plantings higher to 91.5 million acres, a 1.5 million acre increase from USDA's March estimate. Meanwhile, 2024 corn yields are projected at 181 bushels per acre, which is an increase over the 2023 record yield of 177.3 bushels per acre. Despite weather-related concerns in Brazil, total corn production from the combination of Brazil and Argentina is expected to hit a new high. In summary, demand for corn remains soft relative to supply, with United States producers facing challenges on a number of fronts, including a strong dollar that makes U.S. exports less competitive.

Soybean prices also trended lower in the second quarter. USDA lowered planted acreage to 86.1 million acres in its June 28 acreage report. Even so, United States farmers are projected to have planted 3 percent more soybean acres than in 2023. Soybean stocks through June 1 were 970 million bushels, or 22 percent higher than 2023. USDA anticipates higher total soybean usage from the 2023 to the 2024 crop. Domestic soybean crush remains historically strong. United States soybean exports are increasing, but remain below the 10-year average. Argentina and Brazil are expected to produce record soybean crops, contributing to growing international stocks relative to use. In summary, the United States soybean market is experiencing a strong domestic crush market but soybean supply is robust.

Cattle prices have remained strong in the first two quarters of 2024, supported by limited supply and resilient domestic demand. The May USDA all-fresh beef retail price was at a record $7.96 per pound while the comprehensive beef cutout value averaged more than $300 per hundredweight and fed steer prices were approximately $185 per hundredweight. Drought conditions also improved for the cattle sector in the second quarter relative to prior year. Improving pasture conditions could lead to more heifers retained for breeding purposes. United States beef exports in April 2024 were down 3 percent from 2023. This follows a 14 percent year-over-year decrease in April 2023. Meanwhile, United States beef imports in April were up 11 percent over prior year. Overall, tight supplies, trade dynamics, and steady consumer demand defined the cattle market in quarter two 2024.

Refer to the Commodity Review and Outlook section of Management's Discussion & Analysis in the 2023 Annual Report for further analysis of farmland prices and industry conditions.

**Loan Portfolio**

Total loans were $2.9 billion at June 30, 2024, an increase of $17.4 million, or 0.6 percent from December 31, 2023. The increase was primarily due to an increase in our long-term agricultural mortgage portfolio, offset by a decrease in our agribusiness portfolio.

**Portfolio Credit Quality**

The credit quality of our portfolio improved from December 31, 2023. Our adversely classified assets as a percentage of our portfolio decreased during the first six months of 2024 ending the quarter at 2.14 percent, compared to 2.24 percent at December 31, 2023. Adversely classified loans are assets we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for credit losses, and in our opinion, the allowance for credit losses was reasonable in relation to the risk in our loan portfolio at June 30, 2024.

**Nonperforming Assets**

The following table summarizes nonperforming assets and delinquency information (dollars in thousands):

| | **June 30, 2024** | December 31, 2023 |
|---|---|---|
| Loans: | | |
| Nonaccrual | **$ 26,515** | $ 15,864 |
| Accruing loans 90 days or more past due | **28** | 109 |
| Total nonperforming loans | **26,543** | 15,973 |
| Nonperforming loans as a percentage of total loans | **0.90%** | 0.55% |
| Nonaccrual loans as a percentage of total loans | **0.90%** | 0.54% |
| Current nonaccrual loans as a percentage of total nonaccrual loans | **97.4%** | 76.5% |
| Total delinquencies as a percentage of total loans* | **0.11%** | 0.27% |

*Total delinquencies include accrual and nonaccrual loans 30 days or more past due.

Total nonperforming assets have increased since year-end. The increase is primarily due to an increase in nonaccrual loans in the swine portfolio. The decrease in accruing loans 90 days or more past due was primarily related to operating loans. It is our practice to transfer accruing loans that are past due 90 days or more into nonaccrual unless they are adequately secured and in the process of collection. Based on our analysis, loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection and were eligible to remain in accruing status. Nonperforming loans as a percentage of total loans remained at acceptable levels.

**Allowance for Credit Losses**

The allowance for credit losses on loans is an estimate of expected credit losses on loans 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:

| | **June 30, 2024** | December 31, 2023 |
|---|---|---|
| Allowance for credit losses on loans as a percentage of: | | |
| Total loans | **0.12%** | 0.29% |
| Nonaccrual loans | **12.82%** | 53.58% |
| Total nonperforming loans | **12.81%** | 53.21% |

Total allowance for credit losses was $4.2 million at June 30, 2024, and $9.5 million at December 31, 2023. The decrease from December 31, 2023 was primarily related to charge offs in 2024 on accounts that previously had specific reserves. In our opinion, the allowance for credit losses on loans and unfunded commitments is reasonable in relation to the risk in our loan portfolio at June 30, 2024.

**Results of Operations**

The following table presents profitability information (dollars in thousands):

| | **For the six months ended June 30,** | |
|---|---|---|
| | **2024** | 2023 |
| Net income | **$29,099** | $22,136 |
| Return on average assets | **1.89%** | 1.59% |
| Return on average members' equity | **9.90%** | 7.95% |

Changes in these ratios directly relate to:

- Changes in net income discussed in this section;
- Changes in assets discussed in the Loan Portfolio section; and,
- Changes in capital discussed in the Funding, Liquidity and Members' Equity section.

Major components of the changes in net income for the six months ended June 30, 2024 compared to the same period in 2023 are outlined in the following table (dollars in thousands):

| For the six months ended June 30, | **2024** | 2023 | **Increase (decrease) in net income** |
|---|---|---|---|
| Net interest income | **$ 39,711** | $ 34,725 | **$ 4,986** |
| Provision for credit losses | **(4,531)** | 793 | **5,324** |
| Noninterest income | **9,678** | 8,567 | **1,111** |
| Noninterest expense | **24,821** | 20,363 | **(4,458)** |
| Net income | **$ 29,099** | $ 22,136 | **$ 6,963** |

The effects on net interest income from changes in average volumes and rates are quantified in the following table for the six months ended June 30, (dollars in thousands):

| | 2024 vs. 2023 |
|---|---|
| Change in volume | $ 2,613 |
| Change in rates | 2,377 |
| Change in nonaccrual income | (4) |
| Net change | $ 4,986 |

The increase in net interest income is due to higher loan volume and an increase in income earned on earning assets funded by our noninterest-bearing source (capital).

We recorded a $(4,331) thousand provision for credit losses on loans as well as a $(200) thousand provision for credit losses on unfunded commitments for the first six months of 2024, as compared with recording a $693 thousand provision for credit losses on loans and $100 thousand provision for credit losses on unfunded commitments during the first six months of 2023. The decrease in provision was related to charge off amounts being less than the specific reserves that were released. Net charge offs for the first six months of 2024 was $769 thousand compared to a net recovery of charge offs of $107 thousand in the same period a year ago. The change in the provision for credit losses on loans and unfunded commitments reflects our assessment of risk in the loan portfolio.

The increase in noninterest income is primarily due to our share of the Allocated Insurance Reserve Accounts (AIRA) distribution received from the Farm Credit System Insurance Corporation (FCSIC). The AIRA was established by FCSIC when premiums collected increased the level of the Farm Credit Insurance Fund beyond the required 2 percent of insured debt. There was no AIRA distribution in 2023. Refer to our 2023 Annual Report for additional information about the FCSIC. In addition, we experienced an increase in noninterest income income due to an increase in insurance income.

The increase in noninterest expense is primarily due to the operating expenses as a component of the income and expense sharing provisions of the alliance agreement in the first quarter, along with an increase in net expenses under the collaboration agreement, which commenced in April of 2024. The Farm Credit System Insurance expense decreased in 2024, primarily due to a decrease in the FCSIC premium rate. The premium rate, which is primarily impacted by System growth, was 10 basis points for the six months ended June 30, 2024, compared to 18 basis points for the same period in 2023. The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time. Refer to Note 1 in our 2023 Annual Report for additional information on the Farm Credit System Insurance Fund.

We may receive patronage from CoBank, ACB and other Farm Credit entities. Patronage distributions from those entities are declared solely at the discretion of each institution's Board of Directors (dollars in thousands).

| | For the six months ended June 30, | |
|---|---|---|
| | **2024** | 2023 |
| Patronage from CoBank, ACB | **$ 5,648** | $ 5,109 |
| AgDirect patronage distribution | **702** | 648 |
| Other patronage | **20** | 10 |
| Total patronage income | **$ 6,370** | $ 5,767 |

Patronage from CoBank, ACB primarily includes wholesale patronage and is usually in the form of cash. All other patronage from other Farm Credit institutions is typically distributed in cash.

**Funding, Liquidity and Members' Equity**

We borrow from CoBank, ACB under a note payable, in the form of a line of credit. The note payable is collateralized by a pledge of substantially all our assets and is governed by a General Financing Agreement (GFA), which provides for an open-ended revolving line of credit. The line of credit was renegotiated as of June 1, 2024 and was renewed for $2.9 billion with a maturity of May 31, 2025 at which time the note will be renegotiated, if not sooner. 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. Due to the cooperative structure of the Farm Credit System and as Frontier Farm Credit is a stockholder of CoBank, ACB, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

The interest rate may periodically be adjusted by CoBank, ACB based on the terms and conditions of the borrowing. CoBank, ACB has established limitations on our ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At June 30, 2024 and at December 31, 2023 we were within the specified limitations.

Our members' equity increased to $608.5 million at June 30, 2024 compared to $579.3 million at December 31, 2023. The increase was primarily due to the net income recorded for the first six months of 2024.

In the 4th quarter of 2023, our Board also adopted a patronage program for 2024. The 2024 patronage program will be based on each customer's average daily balance of eligible loans outstanding during 2024 to be paid in 2025 on eligible originations, participations purchased and participations sold volume.

Farm Credit Administration 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 Farm Credit Administration 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 8 in our 2023 Annual Report for a more complete description of these ratios. The capital adequacy ratios are directly impacted by the changes in capital as more fully discussed in this section and the changes in assets as discussed in the Loan Portfolio section and off-balance sheet commitments, as disclosed in Note 12 in our 2023 Annual Report.

| | **As of June 30, 2024** | As of December 31, 2023 | Regulatory Minimums | Capital Conservation Buffers |
|---|---|---|---|---|
| Risk-adjusted: | | | | |
| Common equity tier 1 ratio | **15.14%** | 15.44% | 4.50% | 7.00% |
| Tier 1 capital ratio | **15.14%** | 15.44% | 6.00% | 8.50% |
| Total capital ratio | **15.42%** | 15.60% | 8.00% | 10.50% |
| Permanent capital ratio | **15.18%** | 15.46% | 7.00% | 7.00% |
| Non-risk-adjusted: | | | | |
| Tier 1 leverage ratio | **17.34%** | 18.02% | 4.00% | 5.00% |
| Unallocated retained earnings and equivalents leverage ratio | **17.34%** | 18.02% | 1.50% | 1.50% |

**Certification**

This report has been prepared under the oversight of the Board's Audit Committee. The undersigned certify that they have reviewed this report and it has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of their knowledge and belief.

Mark Jensen
President and CEO
August 6, 2024

Shane Tiffany
Chairperson, ACA Board of Directors
August 6, 2024

Craig P. Kinnison
Executive Vice-President and CFO
August 6, 2024

# Frontier Farm Credit, ACA
## Consolidated Statements of Condition
(dollars in thousands)

| | June 30, 2024 (unaudited) | December 31, 2023 |
|---|---|---|
| **ASSETS** | | |
| Loans | **$ 2,943,496** | $ 2,926,057 |
| Allowance for credit losses on loans | **3,400** | 8,500 |
| Net loans | **2,940,096** | 2,917,557 |
| Accrued interest receivable | **44,564** | 40,034 |
| Investment securities, net | **42,350** | — |
| Investment in CoBank , ACB | **68,500** | 68,447 |
| Investment in AgDirect, LLP | **10,665** | 9,516 |
| Investment in RBIC | **6,697** | 5,363 |
| Premises and equipment, net | **20,284** | 20,723 |
| Prepaid benefit expense | **7,704** | 7,908 |
| Other assets | **13,392** | 28,087 |
| Total assets | **$ 3,154,252** | $ 3,097,635 |
| **LIABILITIES** | | |
| Notes payable to CoBank, ACB | **$ 2,525,953** | $ 2,477,811 |
| Accrued interest payable | **8,564** | 8,330 |
| Patronage payable | **—** | 23,900 |
| Allowance for credit losses on unfunded commitments | **800** | 1,000 |
| Accrued benefits liability | **176** | 180 |
| Other liabilities | **10,263** | 7,093 |
| Total liabilities | **2,545,756** | 2,518,314 |
| Commitments and contingencies (Note 6) | | |
| **MEMBERS' EQUITY** | | |
| At-risk capital: | | |
| Class B common stock | **9,341** | 9,252 |
| Class C common stock | **191** | 179 |
| Less: Capital stock receivable | **(9,532)** | (9,431) |
| Retained earnings | **608,496** | 579,321 |
| Total members' equity | **608,496** | 579,321 |
| Total liabilities and members' equity | **$ 3,154,252** | $ 3,097,635 |

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

# Frontier Farm Credit, ACA
## Consolidated Statements of Income
(dollars in thousands)
(unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| **NET INTEREST INCOME** | | | | |
| Interest income | **$ 45,526** | $ 38,207 | **$ 90,522** | $ 72,910 |
| Interest expense | **25,602** | 19,840 | **50,811** | 38,185 |
| Net interest income | **19,924** | 18,367 | **39,711** | 34,725 |
| Provision for credit losses | **(4,937)** | 651 | **(4,531)** | 793 |
| Net interest income after provision for credit losses | **24,861** | 17,716 | **44,242** | 33,932 |
| **NONINTEREST INCOME** | | | | |
| Patronage income | **3,152** | 2,875 | **6,370** | 5,767 |
| Loan fees | **385** | 552 | **840** | 1,049 |
| Mineral income | **281** | 462 | **598** | 842 |
| Insurance services | **135** | 111 | **520** | 351 |
| Rural 1st program fees | **339** | 327 | **487** | 498 |
| Other noninterest income | **845** | 56 | **863** | 60 |
| Total noninterest income | **5,137** | 4,383 | **9,678** | 8,567 |
| **NONINTEREST EXPENSE** | | | | |
| Salaries and employee benefits | **5,479** | 5,252 | **11,386** | 10,568 |
| Occupancy and equipment expense | **839** | 897 | **1,653** | 1,668 |
| Other operating expenses | **7,141** | 3,594 | **10,481** | 6,194 |
| Insurance fund premiums | **605** | 964 | **1,228** | 1,933 |
| Loss (gain) on RBIC | **(101)** | — | **73** | — |
| Total noninterest expense | **13,963** | 10,707 | **24,821** | 20,363 |
| Income before income taxes | **16,035** | 11,392 | **29,099** | 22,136 |
| Provision for income taxes | **—** | — | **—** | — |
| Net income | **$ 16,035** | $ 11,392 | **$ 29,099** | $ 22,136 |

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

# Frontier Farm Credit, ACA
## Consolidated Statements of Changes in Members' Equity
(dollars in thousands)
(unaudited)

| | At-risk Capital | | |
|---|---|---|---|
| | **Capital Stock** | **Retained Earnings** | **Total Equity** |
| Balance at December 31, 2022 | $ — | $ 551,815 | $ 551,815 |
| Net income | | 22,136 | 22,136 |
| Cumulative effect of change in accounting principle | | 100 | 100 |
| Patronage accrual adjustment | | 97 | 97 |
| Capital stock: | | | |
| Issuance of stock in exchange for customer stock receivable | 322 | | 322 |
| Release of customer stock receivable associated with retired stock | (301) | | (301) |
| Less: Capital stock receivable | (21) | | (21) |
| Balance at June 30, 2023 | $ — | $ 574,148 | $ 574,148 |
| | | | |
| Balance at December 31, 2023 | $ — | $ 579,321 | $ 579,321 |
| Net income | | **29,099** | **29,099** |
| Patronage accrual adjustment | | **76** | **76** |
| Capital stock: | | | |
| Issuance of stock in exchange for customer stock receivable | **340** | | **340** |
| Release of customer stock receivable associated with retired stock | **(239)** | | **(239)** |
| Less: Capital stock receivable | **(101)** | | **(101)** |
| **Balance at June 30, 2024** | **—** | **608,496** | **608,496** |

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

## Notes to Consolidated Financial Statements (unaudited)

### Note 1 - Organization

The accompanying unaudited consolidated financial statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Financial Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. 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 2023 Annual Report for the year ended December 31, 2023.

The consolidated financial statements present the consolidated financial results of Frontier Farm Credit, ACA (the parent) and Frontier Farm Credit, FLCA and Frontier Farm Credit, PCA (the subsidiaries). 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 and have determined the following standards to be applicable to our business. While we are a nonpublic 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 Farm Credit System institutions.

| Standard and Effective Date | Description | Financial Statement Impact |
|---|---|---|
| In December 2023, the Financial Accounting Standards Board 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

Loans by type consisted of the following (dollars in thousands):

| | **June 30, 2024** | | December 31, 2023 | |
|---|---|---|---|---|
| | **Amount** | **Percentage** | Amount | Percentage |
| Long-term agricultural mortgage | **$ 1,591,768** | **54.1 %** | $ 1,552,683 | 53.1 % |
| Production and intermediate term | **693,031** | **23.5** | 671,101 | 22.9 |
| Agribusiness | **400,792** | **13.6** | 446,434 | 15.3 |
| Rural infrastructure | **182,543** | **6.2** | 179,280 | 6.1 |
| Rural residential real estate | **43,702** | **1.5** | 46,019 | 1.6 |
| Agricultural export finance | **31,660** | **1.1** | 30,540 | 1.0 |
| Total loans | **$ 2,943,496** | **100.0 %** | $ 2,926,057 | 100.0 % |

### Credit Quality

One credit quality indicator we utilize is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- acceptable – loans are expected to be fully collectible and represent the highest quality;
- other assets especially mentioned (OAEM) – loans are currently collectible but exhibit some potential weakness;
- substandard – loans exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- doubtful – loans exhibit similar weaknesses to substandard assets; however, doubtful loans have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and
- loss – loans are considered uncollectible.

We had no loans categorized as loss at June 30, 2024 or December 31, 2023.

The following table shows loans classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans by loan type at amortized cost (dollars in thousands):

| As of June 30, 2024 | Acceptable | | OAEM | | Substandard/Doubtful | | Total |
|---|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % | Amount |
| Long-term agricultural mortgage | $1,516,488 | 95.27 % | $ 44,764 | 2.81 % | $ 30,516 | 1.92 % | $1,591,768 |
| Production and intermediate term | 644,053 | 92.93 % | 22,400 | 3.23 % | 26,578 | 3.84 % | 693,031 |
| Agribusiness | 381,088 | 95.08 % | 15,320 | 3.82 % | 4,384 | 1.10 % | 400,792 |
| Rural infrastructure | 178,714 | 97.90 % | 2,884 | 1.58 % | 945 | 0.52 % | 182,543 |
| Rural residential real estate | 42,914 | 98.20 % | 266 | 0.61 % | 522 | 1.19 % | 43,702 |
| Agricultural export finance | 31,660 | 100.00 % | — | — | — | — | 31,660 |
| Total | $2,794,917 | 94.95 % | $ 85,634 | 2.91 % | $ 62,945 | 2.14 % | $2,943,496 |

| As of December 31, 2023 | Acceptable | | OAEM | | Substandard/Doubtful | | Total |
|---|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % | Amount |
| Long-term agricultural mortgage | $1,505,339 | 96.95 % | $ 16,698 | 1.08 % | $ 30,646 | 1.97 % | $1,552,683 |
| Production and intermediate term | 630,413 | 93.94 % | 16,041 | 2.39 % | 24,647 | 3.67 % | 671,101 |
| Agribusiness | 432,732 | 96.93 % | 4,348 | 0.97 % | 9,354 | 2.10 % | 446,434 |
| Rural infrastructure | 174,337 | 97.24 % | 4,433 | 2.47 % | 510 | 0.29 % | 179,280 |
| Rural residential real estate | 45,206 | 98.23 % | 275 | 0.60 % | 538 | 1.17 % | 46,019 |
| Agricultural export finance | 30,540 | 100.00 % | — | — | — | — | 30,540 |
| Total | $2,818,567 | 96.33 % | $ 41,795 | 1.43 % | $ 65,695 | 2.24 % | $2,926,057 |

**Delinquency**

The following table provides an aging analysis of past due loans by loan type at amortized cost (dollars 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 Loans | Accruing Loans 90 Days or More Past Due |
|---|---|---|---|---|---|---|
| Long-term agricultural mortgage | $ 1,153 | $ 498 | $ 1,651 | $ 1,590,117 | $ 1,591,768 | $ — |
| Production and intermediate term | 1,333 | 226 | 1,559 | 691,472 | 693,031 | 28 |
| Agribusiness | — | — | — | 400,792 | 400,792 | — |
| Rural infrastructure | — | — | — | 182,543 | 182,543 | — |
| Rural residential real estate | 2 | — | 2 | 43,700 | 43,702 | — |
| Agricultural export finance | — | — | — | 31,660 | 31,660 | — |
| Total | $ 2,488 | $ 724 | $ 3,212 | $ 2,940,284 | $ 2,943,496 | $ 28 |

| 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 Loans | Accruing Loans 90 Days or More Past Due |
|---|---|---|---|---|---|---|
| Long-term agricultural mortgage | $ 1,990 | $ 2,595 | $ 4,585 | $ 1,548,098 | $ 1,552,683 | $ — |
| Production and intermediate term | 2,393 | 369 | 2,762 | 668,339 | 671,101 | 109 |
| Agribusiness | 630 | — | 630 | 445,804 | 446,434 | — |
| Rural infrastructure | — | — | — | 179,280 | 179,280 | — |
| Rural residential real estate | 24 | — | 24 | 45,995 | 46,019 | — |
| Agricultural export finance | — | — | — | 30,540 | 30,540 | — |
| Total | $ 5,037 | $ 2,964 | $ 8,001 | $ 2,918,056 | $ 2,926,057 | $ 109 |

**Nonperforming Loans**

The following table provides the amortized cost for nonperforming loans with and without a related allowance for credit losses on loans as well as, interest income recognized on nonaccrual during the period (dollars in thousands):

| | As of June 30, 2024 | | For the six months ended June 30, 2024 |
|---|---|---|---|
| | **Amortized Cost with Specific Allowance** | **Amortized Cost without Specific Allowance** | **Interest Income Recognized (Reversed)** |
| **Nonaccrual loans:** | | | |
| Long-term agricultural mortgage | **$ —** | **$ 17,780** | **$ (4)** |
| Production and intermediate term | **—** | **8,730** | **—** |
| Rural residential real estate | **—** | **5** | **—** |
| Total nonaccrual loans | **$ —** | **$ 26,515** | **$ (4)** |
| **Accruing loans 90 days or more past due:** | | | |
| Production and intermediate term | **$ —** | **$ 28** | **$ —** |
| Total accruing loans 90 days or more past due | **$ —** | **$ 28** | **$ —** |

| | As of December 31, 2023 | | For the six months ended June 30, 2023 |
|---|---|---|---|
| | **Amortized Cost with Specific Allowance** | **Amortized Cost without Specific Allowance** | **Interest Income Recognized (Reversed)** |
| **Nonaccrual loans:** | | | |
| Long-term agricultural mortgage | $ 2,269 | $ 2,874 | $ 9 |
| Production and intermediate term | 9,057 | 480 | (9) |
| Agribusiness | 822 | 352 | — |
| Rural residential real estate | — | 10 | — |
| Total nonaccrual loans | $ 12,148 | $ 3,716 | $ — |
| **Accruing loans 90 days or more past due:** | | | |
| Production and intermediate term | $ — | $ 109 | $ 18 |
| Total accruing loans 90 days or more past due | $ — | $ 109 | $ 18 |

Reversals of interest income on loans that moved 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. Our loans classified as modified loans at June 30, 2024, or 2023, and activity on these loans during the six months ended June 30, 2024, or 2023, was not material. We did not have any material commitments at June 30, 2024, or December 31, 2023, to lend to borrowers 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**

We utilize multiple macroeconomic scenarios, including base, adverse and optimistic, in the estimate of allowance for credit losses during a reasonable and supportable forecast period of two years. The adverse scenario includes macroeconomic factors reflecting downside potential relative to the base scenario. The optimistic scenario includes potential upside in the macroeconomic factors above the base scenario. Subsequent changes in the macroeconomic forecasts will be reflected in the provision for credit losses in future periods.

An analysis of changes in the allowance for credit losses for the six months ended June 30, 2024 follows (dollars in thousands):

| | For the six months ended June 30, | |
|---|---|---|
| **Allowance for credit losses on loans** | **2024** | 2023 |
| Balance at beginning of year | **$ 8,500** | $ 3,600 |
| Cumulative effect of change in accounting principle | **—** | 400 |
| Provision for credit losses on loans | **(4,331)** | 693 |
| Recoveries | **735** | 127 |
| Charge-offs | **(1,504)** | (20) |
| Balance at end of period | **$ 3,400** | $ 4,800 |
| | | |
| **Allowance for credit losses on unfunded commitments** | | |
| Balance at beginning of year | **$ 1,000** | $ 1,100 |
| Cumulative effect of change in accounting principle | **—** | (500) |
| Provision for credit losses on unfunded commitments | **(200)** | 100 |
| Balance at end of period | **$ 800** | $ 700 |
| Total allowance for credit losses | **$ 4,200** | $ 5,500 |

The change in the allowance for credit losses on loans from December 31, 2023, was primarily driven by charge offs in 2024 on loans that previously had specific reserves.

**Note 3 – Investment Securities**

**Held-to-Maturity**

We held investment securities of $42.3 million at June 30, 2024 and we had no investments securities at December 31, 2023. Our investment securities consisted of pools of loans guaranteed by the U.S. Small Business Administration (SBA). Our investments are mortgage-backed securities (MBS), which are generally longer-term investments.

All of our investment securities were fully guaranteed by the SBA at June 30, 2024. Premiums paid to purchase the investments are not guaranteed and are amortized as a reduction of interest income.

The investment securities have been classified as held-to-maturity. There was no allowance for credit losses on investments at June 30, 2024 or December 31, 2023.

A summary of the amortized cost of securities held-to-maturity is as follows (dollars in thousands):

| As of: | **June 30, 2024** | December 31, 2023 |
|---|---|---|
| Mortgage-backed securities | **$ 42,350** | $ — |
| Total | **$ 42,350** | $ — |

Accrued interest receivable on investment securities is presented in "Accrued interest receivable" in the Consolidated Statements of Condition and was $381 thousand at June 30, 2024. We had no accrued interest receivable on investment securities at December 31, 2023.

Investment income is recorded in "Interest income" in the Consolidated Statements of Income and totaled $126 thousand for the six months ended June 30, 2024. We had no investment income in securities during the six months ended, June 30, 2023.

A summary of the amortized cost of contractual maturities of investment securities is as follows (dollars in thousands):

| **As of June 30, 2024** | **Amortized Cost** |
|---|---|
| More than ten years | **$ 42,350** |
| Total | **$ 42,350** |

**Note 4 – Investment in Rural Business Investment Company**

We and other Farm Credit System institutions are among the limited partners invested in nine Rural Business Investment Companies (RBIC). The RBICs facilitate equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. As of June 30, 2024, our current total commitment is $21.0 million of which $13.7 million is unfunded with varying commitment end dates through June 2034. Certain commitments may have an option to extend under specific circumstances.

**Note 5 – 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 levels of inputs 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. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis is as follows (dollars in thousands):

| | Fair Value Measurement Using | | | |
|---|---|---|---|---|
| **As of June 30, 2024** | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Loans | — | — | **$ —** | **$ —** |

| | Fair Value Measurement Using | | | |
|---|---|---|---|---|
| As of December 31, 2023 | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Loans | — | — | $ 9,289 | $ 9,289 |

<u>Nonperforming loans</u>: Represents the carrying amount of loans evaluated individually for credit losses and are 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 cost 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 judgement about current market conditions, specific issues relating to the collateral and other matters and, therefore, are classified as Level 3 fair value measurements.

**Note 6- Commitments and Contingencies**

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 accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

From time to time, 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, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

Refer to Note 12 in our 2023 Annual Report for additional detail regarding contingencies and commitments.

**Note 7- Subsequent Events**

We have evaluated subsequent events through August 6, 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.