ALABAMA FARM CREDIT, ACA

2024
Third Quarter Report

For the Quarter Ended September 30, 2024

REPORT OF MANAGEMENT

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

Mel Koller, Chief Executive Officer/President	Matthew Christjohn, DVM, Chairman, Board of Directors
November 8, 2024	*November 8, 2024*
Kedric Karkosh, Chief Financial Officer	John R. Adams, Chairman, Audit Committee
November 8, 2024	*November 8, 2024*

Third quarter 2024 Financial Report

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

The following commentary reviews the financial performance of Alabama Farm Credit, ACA, (ACA Agricultural Credit Association), referred to as the Association, for the quarter ended September 30, 2024. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2023 Annual Report to Stockholders.

The Association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

Significant Events

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

Loan Portfolio

Total loans outstanding at September 30, 2024, including nonaccrual loans and sales contracts, were $1,127,473 compared to $1,084,857 at December 31, 2023, reflecting an increase of 3.93 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.53 percent at September 30, 2024, compared to 0.33 percent at December 31, 2023.

The Association recorded $0 in recoveries and $12 in charge-offs for the quarter ended September 30, 2024, and $3 in recoveries and $1 in charge-offs for the same period in 2023. The Association's allowance for loan losses was 0.43 percent and 0.30 percent of total loans outstanding as of September 30, 2024, and December 31, 2023, respectively.

Risk Exposure

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the Association's components and trends of high-risk assets.

	September 30, 2024		December 31, 2023	
Nonaccrual loans:	Amount	Percent	Amount	Percent
Total nonaccrual loans	$ 5,967	83.4%	$ 3,528	74.8%
Total accruing loans 90 days or more past due	264	3.7%	162	3.5%
Other property owned	921	12.9%	1,024	21.7%
Total nonperforming assets	$ 7,152	100.0%	$ 4,714	100.0%

Results of Operations

The Association had net income of $5,095 and $11,835 for the three and nine months ended September 30, 2024, as compared to net income of $3,868 and $12,553 for the same periods in 2023, reflecting an increase of 31.72 percent and a decrease of 5.72 percent. Net interest income was $7,097 and $21,046 for the three and nine months ended September 30, 2024, compared to $6,804 and $20,338 for the same period in 2023.

	Nine Months Ended			
	September 30, 2024		September 30,2023	
	Average Balance	Interest	Average Balance	Interest
Loans	$ 1,098,428	$ 49,780	$ 1,061,009	$ 43,290
Interest-bearing liabilities	983,734	28,733	946,716	22,952
Impact of capital	$ 114,694		$ 114,293	
Net interest income		$ 21,047		$ 20,338

	2024 Average Yield	2023 Average Yield
Total yield on interest - earning assets	6.05%	5.46%
Cost of interest-bearing liabilities	3.90%	3.24%
Interest rate spread	2.15%	2.21%
Net interest income as a percentage of average earning assets	2.56%	2.56%

	Nine Months Ended September 30, 2024 vs. September 30, 2023		
	Interest income change due to the following two factors		
	Volume	Rate	Total
Interest income - loans	$ 1,529	$ 4,962	$ 6,491
Interest expense	898	4,884	5,782
Net interest income	$ 631	$ 78	$ 709

Interest income for the three and nine months ended September 30, 2024, increased by $293 and $709 or 4.31 percent and 3.48 percent, from the same period of 2023, primarily due to increases in yields on earning assets and an increase in average loan volume. Interest expense for the three and nine months ended September 30, 2024, increased by $1,884 and $5,781 or 23.22 percent and 25.19 percent, from the same period of 2023 due to an increase in average debt volume. Average loan volume for the third quarter of 2024 was $1,098,427 compared to $1,061,008 in the third quarter of 2023. The average net interest rate spread on the loan portfolio for the third quarter of 2024 was 2.55 percent, compared to 2.58 percent in the third quarter of 2023.

The Association's return on average assets for the nine months ended September 30, 2024, was 1.38 percent compared to 1.52 percent for the same period in 2023. The Association's return on average equity for the nine months ended September 30, 2024, was 10.29 percent, compared to 11.26 percent for the same period in 2023.

Liquidity and Funding Sources

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the Bank), which obtains its funds through the issuance of System-wide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	September 30, 2024	December 31, 2023
Note payable to the Bank	$ 1,011,705	$ 965,495
Accrued interest on note payable	3,323	3,004
Total	$ 1,015,028	$ 968,499

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2025. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $1,011,704 as of September 30, 2024, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 4.16 percent at September 30, 2024. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the GFA. The increase in note payable to the Bank and related accrued interest payable since December 31, 2023, is due to the Association's increase in in the Association's loan portfolio as a result of the increased loan demand in it's 27 county territory, and an increase in capital market loans. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $117,896 at September 30, 2024. The maximum amount the Association may borrow from the Bank as of September 30, 2024, was $1,129,165 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, which is September 30, 2025, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

Capital Resources

The Association's capital position increased by $11,911 at September 30, 2024, compared to December 31, 2023. The Association's debt as a percentage of members' equity was 6.38:1 as of September 30, 2024, compared to 6.66:1 as of December 31, 2023.

Farm Credit Administration regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of September 30, 2024, the Association exceeded all regulatory capital requirements.

Risk-adjusted:	Regulatory Minimums with Buffer	As of September 30, 2024
Common equity tier 1 ratio	7.5%	11.8%
Tier 1 capital ratio	9.0%	11.8%
Total capital ratio	11.0%	12.2%
Permanent capital ratio	7.0%	11.8%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.4%	11.6%
UREE leverage ratio	2.0%	11.2%

Significant Recent Accounting Pronouncements

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

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

In November 2023, the FASB issued ASU 2023-07 - Segment Reporting: Improvements to Reportable Segment Disclosures. The standard requires a public entity to disclose, on an annual and interim basis, the following:

- significant segment expenses that are readily provided to the chief operating decision maker ("CODM") and included in segment profit or loss,
- composition and aggregate amount of other segment items, which represent the difference between profit or loss and segment revenues less significant segment expenses,
- the title and position of the CODM, and
- an explanation of how the CODM uses the reported segment measures in assessing segment performance and deciding how to allocate resources.

Even if a public entity has a single reportable segment, it is required to provide all disclosures set forth in the standard and all existing segment disclosures. The amendments in the standard are to be applied retrospectively to all prior periods presented and are effective for fiscal years beginning after December 31, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Association is currently assessing the potential impact of this standard on its disclosures.

In December 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-09 - Income Taxes: Improvements to Income Tax Disclosures. The amendments in this standard require more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information.

The amendments in this standard require qualitative disclosure about specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate. The amendments are effective for annual periods beginning after December 15, 2025.The adoption of this guidance is not expected to have a material impact on the Association's financial condition, results of operations or cash flows.

Relationship With the Farm Credit Bank of Texas

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

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

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

Alabama Farm Credit, ACA

CONSOLIDATED BALANCE SHEETS

(unaudited - dollars in thousands)

	September 30, 2024		December 31, 2023	
ASSETS				
Cash	$	10	$	11
Loans		1,127,473		1,084,857
Less: allowance for credit losses on loans		4,877		3,267
Net loans	$	1,122,596	$	1,081,590
Accrued interest receivable		11,907		12,146
Investment in and receivable from the Farm		-		
Credit Bank of Texas:		-		
Capital stock		17,959		17,959
Other		5,930		1,815
Other property owned, net		921		1,024
Premises and equipment, net		15,962		15,559
Other assets		5,229		4,279
Total assets	$	1,180,514	$	1,134,383
LIABILITIES				
Note payable to the Farm Credit Bank of Texas	$	1,011,705	$	965,495
Advance conditional payments		19		1,227
Accrued interest payable		3,323		3,004
Drafts outstanding		35		43
Dividends payable		(99)		9,342
Other liabilities		5,594		7,245
Total liabilities	$	1,020,577	$	986,356
MEMBERS' EQUITY				
Capital stock and participation certificates	$	3,490	$	3,435
Unallocated retained earnings		156,163		144,297
Accumulated other comprehensive income (loss)		284		295
Total members' equity		159,937		148,027
Total liabilities and members' equity	$	1,180,514	$	1,134,383

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

Alabama Farm Credit, ACA
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited - dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
INTEREST INCOME				
Loans	$ 17,100	$ 14,922	$ 49,780	$ 43,290
Total interest income	$ 17,100	$ 14,922	$ 49,780	$ 43,290
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	10,002	8,114	28,733	22,939
Total interest expense	$ 10,002	$ 8,114	$ 28,733	$ 22,939
Net interest income	$ 7,098	$ 6,808	$ 21,047	$ 20,351
PROVISION FOR LOAN LOSSES	267	(126)	1,720	(50)
Net interest income after provision for credit losses	$ 6,831	$ 6,934	$ 19,327	$ 20,401
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	$ 1,318	$ 825	$ 3,877	$ 4,748
Loan fees	141	87	417	388
Financially related services income	646	424	795	427
Gain (loss) on other property owned, net	37	(7)	(37)	270
Gain (loss) on sale of premises and equipment, net	41	129	92	320
Other noninterest income	177	182	553	490
Total noninterest income	$ 2,360	$ 1,640	$ 5,697	$ 6,643
NONINTEREST EXPENSES				
Salaries and employee benefits	$ 2,397	$ 2,679	$ 7,412	$ 7,838
Directors' expense	97	72	300	272
Purchased services	178	344	1,325	1,049
Travel	231	285	679	801
Occupancy and equipment	401	339	1,197	1,140
Communications	80	83	260	271
Advertising	99	69	303	393
Public and member relations	112	152	427	608
Supervisory and exam expense	101	101	304	284
Insurance fund premiums	218	351	358	1,087
Other noninterest expense	182	227	623	735
Total noninterest expenses	4,096	4,702	13,188	14,478
Income before income taxes	$ 5,095	$ 3,868	$ 11,836	$ 12,566
NET INCOME	$ 5,095	$ 3,872	$ 11,836	$ 12,566
Other comprehensive income:				
Change in postretirement benefit plans	$ (3)	$ (4)	$ (10)	$ (12)
Income tax expense related to items of other comprehensive income				
Other comprehensive income, net of tax	(3)	(4)	(10)	(12)
COMPREHENSIVE INCOME	$ 5,092	$ 3,868	$ 11,826	$ 12,554

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

Alabama Farm Credit, ACA
CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited - dollars in thousands)

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2022	$ 3,498	$ 139,389	$ 288	$ 143,175
Net income		12,378		12,378
Other Comprehensive income			(12)	(12)
Capital stock/participation certificates and allocated retained earnings issued	256			256
Capital stock/participation certificates and allocated retained earnings retired	(297)			(297)
Capital stock/participation certificates and allocated retained earnings		(831)		- (831)
Balance at September 30, 2023	$ 3,457	$ 150,936	$ 276	$ 154,669
Balance at December 31, 2023	$ 3,435	$ 144,297	$ 295	$ 148,027
Net income		11,866		11,866
Other comprehensive income			(11)	(11)
Capital stock/participation certificates and allocated retained earnings issued	299			299
Capital stock/participation certificates and allocated retained earnings retired	(244)			(244)
Balance at September 30, 2024	$ 3,490	$ 156,163	$ 284	$ 159,937

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

ALABAMA FARM CREDIT, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unaudited (dollar amounts in thousands, except per share amounts and as otherwise noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Alabama Farm Credit, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Blount, Calhoun, Cherokee, Clay, Cleburne, Colbert, Cullman, DeKalb, Etowah, Fayette, Franklin, Jackson, Jefferson, Lamar, Lauderdale, Lawrence, Limestone, Madison, Marion, Marshall, Morgan, Randolph, Shelby, St. Clair, Talladega, Walker, and Winston in the state of Alabama. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2023, as contained in the 2023 Annual Report to Stockholders.

In the opinion of management, the unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2024. Descriptions of the significant accounting policies are included in the 2023 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

Recently Adopted Accounting Pronouncements

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

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

In November 2023, the FASB issued ASU 2023-07 - Segment Reporting: Improvements to Reportable Segment Disclosures. The standard requires a public entity to disclose, on an annual and interim basis, the following:

- significant segment expenses that are readily provided to the chief operating decision maker ("CODM") and included in segment profit or loss,
- composition and aggregate amount of other segment items, which represent the difference between profit or loss and segment revenues less significant segment expenses,
- the title and position of the CODM, and
- an explanation of how the CODM uses the reported segment measures in assessing segment performance and deciding how to allocate resources.

Even if a public entity has a single reportable segment, it is required to provide all disclosures set forth in the standard and all existing segment disclosures. The amendments in the standard are to be applied retrospectively to all prior periods presented and are effective for fiscal years beginning after December 31, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Association is currently assessing the potential impact of this standard on its disclosures.

In December 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-09 - Income Taxes: Improvements to Income Tax Disclosures. The amendments in this standard require more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information.

The amendments in this standard require qualitative disclosure about specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate. The amendments are effective for annual periods beginning after December 15, 2025.The adoption of this guidance is not expected to have a material impact on the Association's financial condition, results of operations or cash flows.

NOTE 2 — LOANS AND ALLOWANCE FOR CREDIT LOSSES ON LOANS:

A summary of loans follows:

	September 30, 2024	December 31, 2023
Loan Type	Amount	Amount
Production agriculture:		
Real estate mortgage	$ 806,542	$ 783,841
Production and Intermediate-term	168,710	156,567
Agribusiness:		
Loans to cooperatives	4,563	5,550
Processing and marketing	78,060	68,339
Farm-related business	24,892	28,319
Communication	7,816	4,668
Energy	4,995	4,994
Water and waste-water	9,211	9,417
Rural residential real estate	14,862	16,792
Agricultural export finance	7,822	6,370
Total	$ 1,127,473	$ 1,084,857

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

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

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 3,503	$ 126,038	$ -	$ 1,796	$ 3,503	$ 127,834
Production and intermediate-term	44,602	10,957		1,151	44,602	12,108
Agribusiness	55,099	17,382	13,958		69,057	17,382
Communication	7,816				7,816	
Energy	4,995				4,995	
Water and waste-water	9,211				9,211	
Rural residential real estate		1,099				1,099
Agricultural export finance	7,822				7,822	
Total	$ 133,048	$ 155,476	$ 13,958	$ 2,947	$ 147,006	$ 158,423

The Association is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were $18 and $1,227 at September 30, 2024, and December 31, 2023, respectively.

Credit Quality

Credit risk arises from the potential inability of an obligor to meet its payment obligation and exists in our outstanding loans, letters of credit and unfunded loan commitments. The Association manages credit risk associated with the retail lending activities through an analysis of the credit risk profile of an individual borrower using its own set of underwriting standards and lending policies, approved by its board of directors, which provides direction to its loan officers. The retail credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, financial position and collateral, which includes an analysis of credit scores for smaller loans. Repayment capacity focuses on the borrower's ability to repay the loan based on cash flows from operations or other sources of income, including off-farm income. Real estate mortgage loans must be secured by first liens on the real estate (collateral). As required by Farm Credit Administration regulations, institutions that make loans on a secured basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Loans other than real estate mortgage may be made on a secured or unsecured basis.

The Association uses a two-dimensional risk rating model based on an internally generated combined System risk rating guidance that incorporates a 14-point probability of default rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default. Probability of default is the probability that a borrower will experience a default during the life of the loan. The loss given default is management's estimate as to the anticipated principal loss on a specific loan assuming default occurs during the remaining life of the loan. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower or the loan is classified nonaccrual. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses and risks in a particular relationship. The Association reviews, at least on an annual basis or when a credit action is taken, the probability of default category.

Each of the probability of default categories carries a distinct percentage of default probability. The probability of default rate between one and nine of the acceptable categories is very narrow and would reflect almost no default to a minimal default percentage. The probability of default rate grows more rapidly as a loan moves from acceptable to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain. These categories are defined as follows:

- Acceptable — assets are expected to be fully collectible and represent the highest quality,
- Other Assets Especially Mentioned (OAEM) — assets are currently collectible but exhibit some potential weakness,
- Substandard — assets exhibit some serious weakness in repayment capacity, equity, or collateral pledged on the loan,
- Doubtful — assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable, and
- Loss — assets are considered uncollectible.

The following table shows loans under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans by loan type as of September 30, 2024, and December 31, 2023:

	September 30, 2024		December 31, 2023	
Real estate mortgage				
Acceptable	$ 785,109	69.6%	$ 761,747	70.2%
OAEM	10,585	0.9%	10,126	0.9%
Substandard	10,848	1.0%	11,966	1.2%
	$ 806,542	71.5%	$ 783,839	72.3%
Production and intermediate-term				
Acceptable	$ 166,698	14.8%	$ 154,079	14.2%
OAEM	1,156	0.1%	1,407	0.1%
Substandard	856	0.1%	1,082	0.1%
	$ 168,710	15.0%	$ 156,568	14.4%
Agribusiness				
Acceptable	$ 102,746	9.1%	$ 100,345	9.2%
OAEM	3,064	0.3%	1,863	0.2%
Substandard	1,705	0.2%	-	
	$ 107,515	9.6%	$ 102,208	9.4%
Energy				
Acceptable	$ 4,995	0.4%	$ 4,994	0.5%
OAEM	-		-	
Substandard	-		-	
	$ 4,995	0.4%	$ 4,994	0.5%
Water/waste-water				
Acceptable	$ 9,211	0.8%	$ 9,417	0.9%
OAEM	-		-	
Substandard	-		-	
	$ 9,211	0.8%	$ 9,417	0.9%
	-		-	
Communication				
Acceptable	$ 7,816	0.7%	$ 4,668	0.4%
OAEM	-		-	
Substandard	-		-	
	$ 7,816	0.7%	$ 4,668	0.4%
	-		-	
Rural residential real estate				
Acceptable	$ 14,242	1.3%	$ 16,257	1.5%
OAEM	78	0.0%	69	
Substandard	542	0.0%	467	
	$ 14,862	1.3%	$ 16,793	1.5%
	-		-	
Agricultural export finance				
Acceptable	$ 7,822	0.7%	$ 6,370	0.6%
OAEM	-		-	
Substandard	-		-	
	$ 7,822	0.7%	$ 6,370	0.6%
	-		-	
Acceptable	$ 1,098,639	97.4%	$ 1,057,877	97.5%
OAEM	14,883	1.3%	13,465	1.2%
Substandard	13,951	1.3%	13,515	1.3%
	$ 1,127,473	100.0%	$ 1,084,857	100.0%

The following table reflects nonperforming assets, which consist of nonaccrual loans, accruing loans 90 days or more past due and other property owned and related credit quality statistics:

	September 30, 2024		December 31, 2023	
Nonaccrual loans:				
Real estate mortgage	$	4,025	$	3,164
Production and intermediate-term		201		246
Agribusiness		1,705		-
Rural residential real estate		35		117
Total nonaccrual loans	$	5,966	$	3,527
Accruing loans 90 days or more past due:		-		-
Real estate mortgage		264		162
Production and intermediate-term		-		-
Total accruing loans 90 days or more past due	$	264	$	162
Other property owned		921		4,713
Total nonperforming assets	$	7,151	$	8
Nonaccrual loans as a percentage of total loans		0.53%		0.33%
Nonperforming assets as a percentage of total loans and other property owned		0.63%		0.43%
Nonperforming assets as a percentage of capital		4.47%		3.18%

The following tables provide the amortized cost for nonaccrual loans with and without a related allowance for loan losses, as well as interest income recognized on nonaccrual during the period:

	September 30, 2024						Interest Income Recognized	
	Amortized Cost with Allowance		Amortized Cost without Allowance		Total		For the Nine Months Ended September 30, 2024	
Nonaccrual loans:								
Real estate mortgage	$	1,770	$	3,177	$	4,947	$	57
Production and intermediate-term		-		201		201		3
Agribusiness		1,705		-		1,705		123
Rural residential real estate		-		35		35		-
Total nonaccrual loans	$	3,475	$	3,413	$	6,888	$	183

	December 31, 2023						Interest Income Recognized	
	Amortized Cost with Allowance		Amortized Cost without Allowance		Total		For the Six Months Ended June 30, 2024	
Nonaccrual loans:								
Real estate mortgage	$	772	$	2,409	$	3,181	$	126
Production and intermediate-term		17		229		246		2
Rural residential real estate		-		117		117		8
Total nonaccrual loans	$	789	$	2,755	$	3,544	$	136

The following tables provide an aging analysis of past due loans at amortized cost by portfolio segment as of:

September 30, 2024	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due nor Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 4,859	$ 864	$ 5,723	$ 796,092	801,815	$ 264
Production and intermediate term	724	190	914	171,219	172,133	-
Loans to cooperatives	-	-	-	4,584	4,584	-
Processing and marketing	2,257	1,705	3,962	74,635	78,597	-
Farm-related business	-	-	-	25,500	25,500	-
Communication	-	-	-	7,889	7,889	-
Energy	-	-	-	4,996	4,996	-
Water and waste-water	-	-	-	9,229	9,229	-
Rural residential real estate	-	-	-	14,891	14,891	-
Agricultural export finance	-	-	-	7,839	7,839	-
Total	$ 7,840	$ 2,759	$ 10,599	$ 1,116,874	$ 1,127,473	$ 264

December 31, 2023	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due nor Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 5,165	$ 515	$ 5,680	$ 778,160	$ 783,840	$ 162
Production and intermediate term	753	229	982	155,585	156,567	-
Loans to cooperatives	-	-	-	5,550	5,550	-
Processing and marketing	-	-	-	68,339	68,339	-
Farm-related business	-	-	-	28,319	28,319	-
Communication	-	-	-	4,668	4,668	-
Energy	-	-	-	4,994	4,994	-
Water and waste-water	-	-	-	9,417	9,417	-
Rural residential real estate	39	117	156	16,637	16,793	-
Agricultural export finance	-	-	-	6,370	6,370	-
Lease receivables	-	-	-	-	-	-
Mission-related investments	-	-	-	-	-	-
Total	$ 5,957	$ 861	$ 6,818	$ 1,078,039	$ 1,084,857	$ 162

A loan is considered collateral dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The collateral dependent loans are primarily real estate mortgage and rural residential real estate loans

Loan Modifications to Borrowers Experiencing Financial Difficulties

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

	For the Three Months Ended September 30, 2024											
					Combination							
	Interest Rate Reduction	Term Extension	Payment Deferral	Principal Forgivness	Interest Rate & Term Extension	Interest Rate & Payment Deferral	Interest Rate & Principal Forgiveness	Term Extension & Principal Forgiveness	Term Extension & Payment Deferral	Payment Extension & Principal Forgivness	Total	Percentage of Total by Loan Type
Real estate mortgage	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Production and Intermediate-Term	-	-	-	-	-	-	-	-	-	-	-	-
Loans to cooperatives	-	-	-	-	-	-	-	-	-	-	-	-
Processing and marketing	-	-	-	-	-	-	-	-	-	-	-	-
Farm-related business	-	-	-	-	-	-	-	-	-	-	-	-
Communication	-	-	-	-	-	-	-	-	-	-	-	-
Energy	-	-	-	-	-	-	-	-	-	-	-	-
Water and waste-water	-	-	-	-	-	-	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-	-	-	-	-	-	-
Agricultural export finance	-	-	-	-	-	-	-	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

	For the Three Months Ended September 30, 2023											
					Combination							
	Interest Rate Reduction	Term Extension	Payment Deferral	Principal Forgivness	Interest Rate & Term Extension	Interest Rate & Payment Deferral	Interest Rate & Principal Forgiveness	Term Extension & Principal Forgiveness	Term Extension & Payment Deferral	Payment Extension & Principal Forgivness	Total	Percentage of Total by Loan Type
Real estate mortgage	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Production and Intermediate-Term	-	-	-	-	-	-	-	-	-	-	-	-
Loans to cooperatives	-	-	-	-	-	-	-	-	-	-	-	-
Processing and marketing	-	-	-	-	-	-	-	-	-	-	-	-
Farm-related business	-	-	-	-	-	-	-	-	-	-	-	-
Communication	-	-	-	-	-	-	-	-	-	-	-	-
Energy	-	-	-	-	-	-	-	-	-	-	-	-
Water and waste-water	-	-	-	-	-	-	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-	-	-	-	-	-	-
Agricultural export finance	-	-	-	-	-	-	-	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty as of the nine months ended September 30, 2024 and 2023 was $0 and $0, respectively.

	For the Nine Months Ended September 30, 2024											
					Combination							
	Interest Rate Reduction	Term Extension	Payment Deferral	Principal Forgivness	Interest Rate & Term Extension	Interest Rate & Payment Deferral	Interest Rate & Principal Forgiveness	Term Extension & Principal Forgiveness	Term Extension & Payment Deferral	Payment Extension & Principal Forgivness	Total	Percentage of Total by Loan Type
Real estate mortgage	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Production and Intermediate-Term	-	-	-	-	-	-	-	-	-	-	-	-
Loans to cooperatives	-	-	-	-	-	-	-	-	-	-	-	-
Processing and marketing	-	-	-	-	-	-	-	-	-	-	-	-
Farm-related business	-	-	-	-	-	-	-	-	-	-	-	-
Communication	-	-	-	-	-	-	-	-	-	-	-	-
Energy	-	-	-	-	-	-	-	-	-	-	-	-
Water and waste-water	-	0	-	-	-	-	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-	-	-	-	-	-	-
Agricultural export finance	-	-	-	-	-	-	-	-	-	-	-	-
Total	$ -	$ 0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

	For the Nine Months Ended September 30, 2023											
					Combination							
	Interest Rate Reduction	Term Extension	Payment Deferral	Principal Forgivness	Interest Rate & Term Extension	Interest Rate & Payment Deferral	Interest Rate & Principal Forgiveness	Term Extension & Principal Forgiveness	Term Extension & Payment Deferral	Payment Extension & Principal Forgivness	Total	Percentage of Total by Loan Type
Real estate mortgage	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Production and Intermediate-Term	-	-	-	-	-	-	-	-	-	-	-	-
Loans to cooperatives	-	-	-	-	-	-	-	-	-	-	-	-
Processing and marketing	-	-	-	-	-	-	-	-	-	-	-	-
Farm-related business	-	-	-	-	-	-	-	-	-	-	-	-
Communication	-	-	-	-	-	-	-	-	-	-	-	-
Energy	-	-	-	-	-	-	-	-	-	-	-	-
Water and waste-water	-	-	-	-	-	-	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-	-	-	-	-	-	-
Agricultural export finance	-	-	-	-	-	-	-	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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

	Financial Effect	
	For the Three Months Ended September 30, 2024	For the Three Months Ended September 30, 2023
	Interest Rate Reduction	Interest Rate Reduction
Real estate mortgage	-	-
Agribusiness		
	Term Extension	Term Extension
Real estate mortgage	-	-
Rural residential real estate		
	Payment Deferral	Payment Deferral
Real estate mortgage	-	-
Rural residential real estate		
	Principal Forgiveness	Principal Forgiveness
Real estate mortgage	-	-
Production and intermediate-term		
	Combination - Interest Rate Reduction and Term Extension	Combination - Interest Rate Reduction and Term Extension
Real estate mortgage	-	-
Agribusiness		
	Combination - Interest Rate Reduction and Payment Deferral	Combination - Interest Rate Reduction and Payment Deferral
Real estate mortgage	-	-
Agribusiness		
	Combination – Interest Rate Reduction and Principal Forgiveness	Combination – Interest Rate Reduction and Principal Forgiveness
Real estate mortgage	-	-
Production and intermediate-term		
	Combination – Term Extension and Principal Forgiveness	Combination – Term Extension and Principal Forgiveness
Real estate mortgage	-	-
Agribusiness		
	Combination – Term Extension and Payment Deferral	Combination – Term Extension and Payment Deferral
Real estate mortgage	-	-
Agribusiness		
	Combination – Payment Deferral and Principal Forgiveness	Combination – Payment Deferral and Principal Forgiveness
Real estate mortgage	-	-
Agribusiness		

The following table sets forth an aging analysis of loans to borrowers experiencing financial difficulty that were modified during the twelve months prior to September 30, 2024:

	Payment Status of Loans Modified in the Past 12 Months		
	Current	30-89 Days Past Due	90 Days or More Past Due
Real estate mortgage	$ 219	$ -	$ -
Production and intermediate-term	-	-	-
Agribusiness	-	-	-
Communication	-	-	-
Energy and Water/waste disposal	-	-	-
Rural residential real estate	148	-	-
International	-	-	-
Mission-related investments	-	-	-
Lease receivables	-	-	-
Total	$ 367	$ -	$ -

The following table sets forth an aging analysis of loans to borrowers experiencing financial difficulty that were modified on or after January 1, 2023, the date of adoption of CECL, through September 30, 2023:

	Payment Status of Loans Modified in the Past 12 Months		
	Current	30-89 Days Past Due	90 Days or More Past Due
Real estate mortgage	$ -	$ -	$ -
Production and intermediate-term	-	-	-
Agribusiness	-	-	-
Communication	-	-	-
Energy and Water/waste disposal	-	-	-
Rural residential real estate	-	-	-
International	-	-	-
Mission-related investments	-	-	-
Lease receivables	-	-	-
Total	$ -	$ -	$ -

Allowance for Credit Losses

The credit risk rating methodology is a key component of the Association’s allowance for credit losses evaluation and is generally incorporated into the Association’s loan underwriting standards and internal lending limits. In addition, borrower and commodity concentration lending and leasing limits have been established by the Association to manage credit exposure. The regulatory limit to a single borrower or lessee is 15 percent of the Association’s lending and leasing limit base but the Association’s boards of directors have generally established more restrictive lending limits.

A summary of changes in the allowance for credit losses by portfolio segment are as follows:

	Real Estate Mortgage	Production and Intermediate-Term	Agri-business	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Allowance for credit losses on loans:								
Balance at June 30, 2024	$ (2,900)	$ (286)	$ (1,406)	$ (7)	$ (17)	$ (57)	$ (6)	$ (4,678)
Charge-offs	9	2	-	-	-	0	-	11
Recoveries	-	-	-	-	-	-	-	-
Provision for credit losses/(Credit loss reversal)	158	(150)	(202)	(10)	-	(6)	-	(210)
Balance at September 30, 2024	$ (2,733)	$ (434)	$ (1,608)	$ (17)	$ (17)	$ (63)	$ (5)	$ (4,877)
Allowance for credit losses on unfunded commitments:	-	-	-	-	-	-	-	-
Balance at June 30, 2024	(2)	(325)	(101)	-	(1)	-	(4)	(433)
Provision for unfunded commitments	(3)	(9)	19	(1)	-	-	1	7
Balance at September 30, 2024	$ (5)	$ (334)	$ (82)	$ (1)	$ (1)	-	$ (3)	$ (426)

	Real Estate Mortgage	Production and Intermediate-Term	Agri-business	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Allowance for credit losses on loans:								
Balance at December 31, 2023	$ (2,627)	$ (251)	$ (299)	$ (7)	$ (19)	$ (56)	$ (8)	$ (3,267)
Charge-offs	9	2	-	-	-	-	-	11
Recoveries	-	-	-	-	-	-	-	-
Provision for credit losses/(Credit loss reversal)	(115)	(185)	(1,309)	(10)	2	(7)	3	(1,621)
Balance at September 30, 2024	$ (2,733)	$ (434)	$ (1,608)	$ (17)	$ (17)	$ (63)	$ (5)	$ (4,877)
Allowance for credit losses on unfunded commitments:								
Balance at December 31, 2023	$ (1)	$ (300)	$ (97)	$ -	$ (1)	$ -	$ (5)	$ (404)
Provision for unfunded commitments	(3)	(35)	16	(1)	-	-	1	(22)
Balance at September 30, 2024	$ (4)	$ (335)	$ (81)	$ (1)	$ (1)	$ -	$ (4)	$ (426)

The Allowance for Credit Losses increased $1,609 to $4,877 at September 30, 2024, as compared to $3,267 at December 31, 2023.

NOTE 3— CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the Association's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an Association's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Minimums with Buffer	As of September 30, 2024
Common equity tier 1 ratio	7.5%	11.8%
Tier 1 capital ratio	9.0%	11.8%
Total capital ratio	11.0%	12.2%
Permanent capital ratio	13.6%	11.8%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.4%	11.6%
UREE leverage ratio	2.0%	11.2%

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

Risk-adjusted Capital Ratios

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 150,697	$ 150,697	$ 150,697	$ 150,697
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	3,485	3,485	3,485	3,485
Allowance for loan losses and reserve for credit losses subject to certain limitations			5,059	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(20,778)	(20,778)	(20,778)	(20,778)
Other regulatory required deductions	(2,773)	(2,773)	(2,773)	(2,773)
	$ 130,631	$ 130,631	$ 135,690	$ 130,631
Denominator:				
Risk-adjusted assets excluding allowance	$ 1,132,665	$ 1,132,665	$ 1,132,665	$ 1,132,665
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(23,551)	(23,551)	(23,551)	(23,551)
Allowance for loan losses				(4,626)
	$ 1,109,114	$ 1,109,114	$ 1,109,114	$ 1,104,488

Non-risk-adjusted Capital Ratios

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	$ 150,697	$ 150,697
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	3,485	-
Amount of allocated investments in other System institutions	(20,778)	(20,778)
Other regulatory required deductions	(2,773)	(2,773)
	$ 130,631	$ 127,146
Denominator:		
Total Assets	$ 1,158,002	$ 1,158,002
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(26,562)	(26,562)
	$ 1,131,440	$ 1,131,440

The following tables present the activity in the accumulated other comprehensive loss, net of tax by component:

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2023	$ 3,435	$ 144,297	$ 292	$ 148,024
Net income		11,868	-	11,868
Other comprehensive income			(10)	(10)
and allocated retained earnings	299			299
and allocated retained earnings	(244)			(244)
Patronage refunds:				-
Cash		-		-
Capital stock/participation certificates				-
and allocated retained earnings		-		-
Balance at September 30, 2024	$ 3,490	$ 156,165	$ 282	$ 159,937
Balance at December 31, 2022	$ 3,498	$ 139,389	$ 288	$ 143,175
Net income		12,378	-	12,378
Other comprehensive income			(12)	(12)
and allocated retained earnings	246			246
and allocated retained earnings	(288)			(288)
Patronage refunds:				
CECL Adjustment		(831)		(831)
Capital stock/participation certificates				
and allocated retained earnings		-		-
Balance at September 30, 2023	$ 3,456	$ 150,936	$ 276	$ 154,668

The Association's accumulated other comprehensive income (loss) relates entirely to its non-pension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income (loss) for the nine months ended September 30:

	2024	2023
Accumulated other comprehensive income (loss) at January 1	$ 292	$ 288
Amortization of actuarial (gain) loss included in salaries and employee benefits	(10)	(12)
Accumulated other comprehensive income (loss) at September 30	$ 282	$ 276

NOTE 4 — FAIR VALUE MEASUREMENTS:

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 13 in the 2023 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a non-recurring basis for each of the fair value hierarchy values are summarized below:

September 30, 2024	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	$ -	$ -	$ 4,861	$ 4,861
Other property owned	-	-	921	921

December 31, 2023	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	$ -	$ -	$ 766	$ 766
Other property owned	-	-	1,024	1,024

The fair value of certain loans that were evaluated for impairment under the authoritative guidance "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

Uncertainty of Fair Value Measurements

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

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

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

Valuation Techniques

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

Assets Held in Nonqualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Standby Letters of Credit

The fair value of letters of credit approximates the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

Cash

For cash, the carrying amount is a reasonable estimate of fair value.

Loans

Fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the Association's current loan origination rates as well as management's estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

For purposes of estimating fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

Commitments to Extend Credit

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates.

NOTE 5 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the three and nine months ended September 30:

	Other Benefits	
Three months ended September 30:	2024	2023
Service cost	$ 7	$ 6
Interest cost	23	21
Amortization of prior service (credits) costs	(2)	(2)
Amortization of net actuarial (gain) loss	(1)	-
Net periodic benefit cost	$ 27	$ 25

	Other Benefits	
Nine months ended September 30:	2024	2023
Service cost	$ 20	$ 19
Interest cost	70	63
Amortization of prior service (credits) costs	(7)	(7)
Amortization of net actuarial (gain) loss	(3)	-
Net periodic benefit cost	$ 80	$ 75

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2024, was $1,740 and is included in other liabilities on the balance sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "other components of net periodic postretirement benefit cost" in the income statement.

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and Associations). The Association recognizes its amortized annual contributions to the plan as an expense. The Association previously disclosed in its financial statements for the year ended December 31, 2023, that it expected to contribute $67 to the district's defined benefit pension plan in 2024. As of September 30, 2024, $50 of contributions have been made. The Association presently anticipates contributing an additional $17 to fund the defined benefit pension plan in 2024 for a total of $67.

NOTE 6 — COMMITMENTS AND CONTINGENT LIABILITIES:

The Association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association