# GreenStone Farm Credit Services, ACA

**Quarterly Report**
**June 30, 2024**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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## FORWARD-LOOKING INFORMATION

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

## AGRICULTURAL AND ECONOMIC CONDITIONS

The United States (U.S.) real gross domestic product (GDP) increased at an annual pace of 2.8% in the second quarter of 2024. The increase primarily reflected increases in consumer spending, private inventory investment, and nonresidential fixed investments. Imports, which are a subtraction in the calculation of GDP, increased. Compared to the first quarter of 2024 when GDP increased 1.4%, the acceleration in the second quarter primarily reflected an upturn in private inventory investment and consumer spending. These movements were partially offset by a downturn in residential fixed investment.

The U.S. economy added 206,000 jobs in June 2024 according to the Bureau of Labor Statistics (BLS). The gains were primarily focused in government (70,000 jobs) along with healthcare and social assistance (83,000 jobs). The report indicates a cooling in the labor market as the three-month average of job gains equaled 177,000 jobs, the slowest pace of increases since January 2021. The overall unemployment rate increased slightly to 4.1%, which was the highest level since November 2021. The unemployment rate in Michigan was 4.1% in June 2024, up 0.4% from the previous year, while the unemployment rate in Wisconsin was 2.9% in June 2024, down 0.1% from the previous year.

The BLS's June 2024 Consumer Price Index (CPI) report showed an easing of inflationary pressures with headline CPI falling by 0.1% month-over-month, the first monthly decline since May 2020. The June CPI report moderated the year-over-year gain to 3.0%, from 3.3% in May, the slowest annualized pace of price increases since June 2023. The slowdown in the inflation rate was attributed to declines in both gas prices and easing shelter prices (housing market). Gasoline prices declined by 3.8% in June 2024 compared to May 2024. The shelter index did rise by 0.2% in June, but this was a reduction from the monthly increase of 0.4% in May and the first monthly increase below 0.3% in three years.

The Federal Reserve (Fed) announced at its June 2024 meeting that the Federal Open Market Committee (FOMC) would keep the federal funds rate unchanged at its current target range of 5.25% to 5.50%. This was the FOMC's seventh consecutive meeting in which the policymakers kept rates steady at the highest target range in 23 years. Additionally, the Fed announced it will continue to reduce its holdings of U.S. Treasury securities and agency mortgage-backed securities. The FOMC also released its Summary of Economic Projections after the June meeting. The report shows a year-end median federal funds rate of 5.1%, implying policymakers expect one 0.25% rate cut by the end of 2024 and then an additional 1.00% lower by the end of 2025.

The U.S. Department of Agriculture (USDA) June World Agricultural Supply and Demand Estimates (WASDE) report included higher than anticipated totals for corn acreage and stocks. According to the National Agricultural Statistics Service's June acreage report, planted corn acreage was reported at 91.5 million acres, a 3.5% reduction from 2023, but still well above market expectations and up 1.6% from the March 2024 Prospective Plantings survey.

Additionally, the June WASDE report projected the 2024 season average corn price at $4.40 per bushel, down from the 2023 price of $4.65 per bushel. The 2024 U.S. corn production forecast remained at 14.9 billion bushels, a 3.1% reduction from 2023. The estimated national average yield is 181.0 bushels per acre for 2024, compared to 177.3 bushels per acre for 2023. Global corn production for 2024 was forecast slightly higher, with increases in Brazil, the European Union, China, South Africa, and Mexico, partially offsetting declines in the United States, Ukraine, and other countries.

According to the June 2024 WASDE report, planted soybean acreage totaled 86.1 million acres, a 3.1% increase from the prior year. USDA projects the 2024 average farm price for soybeans at $11.20 per bushel. The 2024 price indicates a continued downward trend in soybean prices compared to recent years as prices averaged $14.20 per bushel in 2022 and $12.55 in 2023. U.S. 2024 soybean production is forecasted at 4.5 billion bushels, with an estimated national average yield of 52.0 bushels per acre, up from 50.6 bushels per acre in 2023. Global soybean exports for 2024 are expected to increase by 4.4% compared to the previous marketing year. This growth is primarily attributed to higher exports from the United States, Brazil, Argentina, and Ukraine. China's soybean imports are projected to rise by 4.0 million tons to 109.0 million tons, driven by larger global supplies and lower prices.

The USDA's June 2024 Livestock, Dairy, and Poultry Outlook provides a cautious but slightly optimistic outlook for the U.S. dairy industry with modest growth in production, stable demand, and increased prices. U.S. milk production is projected to increase slightly in 2024 to 227.3 billion pounds (0.4% increase year-over-year) due to higher average milk per cow production of 24,320 pounds (0.8% increase year-over-year), which is partially offset by a 0.4% decrease in the dairy cow inventory. Increased cheese and whey prices, driven by strong demand, have resulted in a higher forecasted Class III price in 2024 of $17.90 per hundredweight (cwt) (5.1% increase year-over-year).

The USDA's June 2024 report suggests a generally more positive market environment for the U.S. pork industry in 2024. U.S. pork production is forecasted to increase to 28.1 billion pounds in 2024 (2.9% increase year-over-year) driven by growth in pigs per litter and improved production efficiency. Strong domestic and export demand are forecasted to absorb the increased production, with U.S. pork exports projected to total 7.4 billion pounds in 2024 (8.0% increase year-over-year). Due to strong demand absorbing increased pork supplies, hog prices are forecasted to increase to $61.24 per cwt in 2024 (4.5% increase year-over-year) with the bulk of the higher prices anticipated in the second and third quarters of the year.

## LOAN PORTFOLIO

### Loan Portfolio

Total loans were $12.7 billion at June 30, 2024, an increase of $163.4 million from December 31, 2023. Our mortgage portfolio increased $309.3 million, or 3.1% from December 31, 2023, while our short and intermediate-term loan portfolio decreased $145.9 million, or 6.1% from December 31, 2023. When compared to June 30, 2023, owned and managed loan volume (which includes loans in our Consolidated Statements of Condition as well as loan participation interests sold as part of AgriBank asset pool programs) increased 6.5%. This increase was driven by moderate growth in all market segments and was led by our capital markets segment which increased 7.5% since June 30, 2023. In addition, our country living, large farm and agribusiness, and traditional farm segments have increased 6.5%, 5.8%, and 5.3% since June 30, 2023, respectively. Our current volume reflects an asset growth rate year-over-year that is running slightly below our 2024 Business Plan.

### Portfolio Credit Quality

The credit quality of our loan portfolio remained solid during the first six months of 2024. Acceptable loan credit quality, as measured under the Uniform Classification System, was 95.4%, which decreased slightly from 96.6% at December 31, 2023. Year-over-year, acceptable credit quality decreased 1.4% from 96.8% at June 30, 2023. Portfolio assets classified as being less than acceptable were comprised of 2.8% other assets especially mentioned (OAEM) and 1.8% adversely classified. OAEM increased 1.3% but adversely classified decreased 0.1% since December 31, 2023.

Adversely classified loans are identified as having material credit weaknesses which, if left uncorrected, result in a greater than normal risk. Portfolio credit quality is considered when assessing the reasonableness of our allowance for credit losses on loans. More leveraged borrowers in our processing and marketing, cash crop, and fruit portfolios were challenged financially during the first six months of 2024. Our adverse assets to regulatory capital ratio was 10.9% at June 30, 2024, which decreased 1.0% from December 31, 2023, and remained well within our established risk management guidelines.

In certain circumstances, the Federal Agricultural Mortgage Corporation and other government agency guarantee programs are used to reduce the risk of loss. At June 30, 2024, $370.2 million of our loans were substantially guaranteed under these programs. The guaranteed loan volume decreased from $382.5 million at December 31, 2023.

## Nonperforming Assets

**Components of Nonperforming Assets**

| (dollars in thousands)<br>As of: | **June 30,<br>2024** | December 31,<br>2023 |
|---|---|---|
| Loans: | | |
| Nonaccrual | **$44,057** | $43,951 |
| Accruing loans 90 days or more past due | **46** | -- |
| Total nonperforming loans | **44,103** | 43,951 |
| Acquired property | **3,338** | 573 |
| Total nonperforming assets | **$47,441** | $44,524 |
| Total nonperforming loans as a percentage of total loans | **0.3%** | 0.4% |
| Nonaccrual loans as a percentage of total loans | **0.3%** | 0.4% |
| Current nonaccrual loans as a percentage of total nonaccrual loans | **75.4%** | 73.1% |
| Total delinquencies as a percentage of total loans[1] | **0.3%** | 0.2% |

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

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

Nonaccrual loans increased slightly from $44.0 million at December 31, 2023, to $44.1 million at June 30, 2024. As of June 30, 2024, 75.3% of the nonaccrual loan portfolio was from five capital markets purchased participations.

Our accounting policy requires loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, accruing loans 90 days or more past due were eligible to remain in accruing status.

The increase in acquired property is primarily due to loans with one customer in our capital markets portfolio. The properties held as collateral for this customer were transferred into acquired property during 2024.

## Allowance for Credit Losses on Loans

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

**Allowance for Credit Losses on Loans Coverage Ratios**

| As of: | **June 30,<br>2024** | December 31,<br>2023 |
|---|---|---|
| Allowance for credit losses on loans as a percentage of: | | |
| Loans | **0.3%** | 0.3% |
| Nonaccrual loans | **88.1%** | 81.6% |
| Total nonperforming loans | **88.0%** | 81.6% |

The allowance for credit losses on loans increased $2.9 million from December 31, 2023, to $38.8 million at June 30, 2024. During the first half of 2024, provision for credit losses on loans of $8.0 million along with net charge-offs of $5.1 million were recorded.

Under certain circumstances, credit losses may be recorded to establish an allowance for credit losses on unfunded commitments. The allowance for credit losses on unfunded commitments are recorded in “other liabilities” in the Consolidated Statements of Condition. The allowance for credit losses on unfunded commitments were $10.1 million at June 30, 2024, which increased by $1.9 million from December 31, 2023.

## RESULTS OF OPERATIONS

**Profitability Information**

| (dollars in thousands)<br>For the six months ended June 30, | **2024** | 2023 |
|---|---|---|
| Net income | **$152,999** | $126,247 |
| Return on average assets | **2.3%** | 1.9% |
| Return on average members' equity | **12.3%** | 10.9% |

Changes presented in the profitability information table relate directly to:

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

| **Changes in Significant Components of Net Income**<br>(in thousands)<br>For the six months ended June 30, | **2024** | 2023 | **Increase (decrease) in net income** |
|---|---|---|---|
| Net interest income | **$170,411** | $169,412 | **$999** |
| Provision for credit losses | **(9,970)** | (24,162) | **14,192** |
| Patronage income | **36,873** | 32,093 | **4,780** |
| Financially related services income | **8,536** | 7,119 | **1,417** |
| Fee income | **14,633** | 12,298 | **2,335** |
| Other non-interest income | **4,402** | 2,593 | **1,809** |
| Non-interest expense | **(69,834)** | (69,136) | **(698)** |
| Provision for income taxes | **(2,052)** | (3,970) | **1,918** |
| Net income | **$152,999** | $126,247 | **$26,752** |

## Net Interest Income

| **Changes in Net Interest Income**<br>(in thousands)<br>For the six months ended June 30, | **2024 vs 2023** |
|---|---|
| Changes in volume | **($2,076)** |
| Changes in interest rates | **2,508** |
| Changes in nonaccrual interest income and other | **567** |
| Net change | **$999** |

## Provision for Credit Losses

During the first six months of 2024, a provision for credit losses of $10.0 million was recorded. This provision expense was primarily due to a specific reserve on a purchased participation that transferred to nonaccrual during the second quarter of 2024 and increased general reserves for loans collectively evaluated based on our three-year economic forecast declining slightly. This compares to the first half of 2023, when we recorded provision for credit losses of $24.2 million, which was primarily due to specific reserves that were established for three capital markets purchased participations.

## Patronage Income

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

| **Patronage Income**<br>(in thousands)<br>For the six months ended June 30, | **2024** | 2023 |
|---|---|---|
| Patronage from AgriBank | **$34,244** | $30,062 |
| AgDirect partnership distribution | **2,300** | 1,868 |
| Other patronage | **329** | 163 |
| Total patronage income | **$36,873** | $32,093 |

The increase in patronage income in the first half of 2024 compared to the same period in 2023 was primarily due to higher asset pool program patronage from an asset pool representing an approximate 10% participation interest across the majority of our loan portfolio that was sold to AgriBank on November 1, 2023.

## Fee Income

The increase in fee income was primarily due to servicing fees received during the first half of 2024 for participation interests sold.

# FUNDING, LIQUIDITY, AND CAPITAL

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

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

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

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

Total members' equity increased $93.5 million from December 31, 2023, primarily due to net income for the period partially offset by patronage distribution accruals.

The Farm Credit Administration (FCA) Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total regulatory capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 7 in our 2023 Annual Report for a more complete description of these ratios.

**Regulatory Capital Requirements and Ratios**

| As of: | **June 30, 2024** | December 31, 2023 | Regulatory Minimums | Capital Conservation Buffer | Total |
|---|---|---|---|---|---|
| Risk-adjusted: | | | | | |
| Common equity tier 1 ratio | **15.1%** | 14.8% | 4.5% | 2.5% | 7.0% |
| Tier 1 capital ratio | **15.1%** | 14.8% | 6.0% | 2.5% | 8.5% |
| Total regulatory capital ratio | **15.4%** | 15.2% | 8.0% | 2.5% | 10.5% |
| Permanent capital ratio | **15.1%** | 14.9% | 7.0% | N/A | 7.0% |
| Non-risk-adjusted: | | | | | |
| Tier 1 leverage ratio | **16.2%** | 15.9% | 4.0% | 1.0% | 5.0% |
| Unallocated retained earnings and equivalents leverage ratio | **16.0%** | 15.7% | 1.5% | N/A | 1.5% |

Capital ratios are directly impacted by the changes in capital, as more fully explained in this section, the changes in assets, as discussed in the Loan Portfolio section, and off-balance sheet commitments, as disclosed in Note 11 in our 2023 Annual Report.

## CERTIFICATION

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

Edward L. Reed
Chair of the Board
GreenStone Farm Credit Services, ACA

Travis D. Jones
Chief Executive Officer
GreenStone Farm Credit Services, ACA

Kimberly S. Brunner
Executive Vice President – Chief Financial Officer
GreenStone Farm Credit Services, ACA

August 8, 2024

# CONSOLIDATED STATEMENTS OF CONDITION

*GreenStone Farm Credit Services, ACA*
*(in thousands)*

| As of: | **June 30, 2024** | December 31, 2023 |
|---|---|---|
| | *(Unaudited)* | |
| **ASSETS** | | |
| Loans | **$12,669,122** | $12,505,709 |
| Allowance for credit losses on loans | **38,810** | 35,874 |
| Net loans | **12,630,312** | 12,469,835 |
| Investment in AgriBank, FCB | **471,623** | 489,023 |
| Accrued interest receivable | **104,427** | 100,279 |
| Premises and equipment, net | **50,578** | 51,555 |
| Other assets | **120,324** | 110,438 |
| Total assets | **$13,377,264** | $13,221,130 |
| **LIABILITIES** | | |
| Note payable to AgriBank, FCB | **$10,629,613** | $10,501,604 |
| Accrued interest payable | **104,087** | 103,313 |
| Patronage distribution payable | **60,000** | 120,000 |
| Deferred tax liabilities, net | **3,022** | 2,318 |
| Other liabilities | **56,455** | 63,318 |
| Total liabilities | **10,853,177** | 10,790,553 |
| Contingencies and commitments (Note 3) | | |
| **MEMBERS' EQUITY** | | |
| Protected members' equity | **--** | 1 |
| Capital stock and participation certificates | **26,790** | 26,475 |
| Unallocated surplus | **2,499,535** | 2,406,452 |
| Accumulated other comprehensive loss | **(2,238)** | (2,351) |
| Total members' equity | **2,524,087** | 2,430,577 |
| Total liabilities and members' equity | **$13,377,264** | $13,221,130 |

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

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

*GreenStone Farm Credit Services, ACA*
*(in thousands)*
*(Unaudited)*

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| *For the period ended June 30,* | **2024** | 2023 | **2024** | 2023 |
| **Interest income** | **$190,539** | $180,508 | **$375,844** | $351,153 |
| **Interest expense** | **104,088** | 95,637 | **205,433** | 181,741 |
| Net interest income | **86,451** | 84,871 | **170,411** | 169,412 |
| **Provision for credit losses** | **6,279** | 9,020 | **9,970** | 24,162 |
| Net interest income after provision for credit losses | **80,172** | 75,851 | **160,441** | 145,250 |
| **Non-interest income** | | | | |
| Patronage income | **17,703** | 15,378 | **36,873** | 32,093 |
| Financially related services income | **3,335** | 2,281 | **8,536** | 7,119 |
| Fee income | **8,091** | 7,389 | **14,633** | 12,298 |
| Other non-interest income | **3,962** | 461 | **4,402** | 2,593 |
| Total non-interest income | **33,091** | 25,509 | **64,444** | 54,103 |
| **Non-interest expense** | | | | |
| Salaries and employee benefits | **24,747** | 22,962 | **49,084** | 45,294 |
| Other operating expense | **10,538** | 12,265 | **20,750** | 23,842 |
| Total non-interest expense | **35,285** | 35,227 | **69,834** | 69,136 |
| Income before income taxes | **77,978** | 66,133 | **155,051** | 130,217 |
| **Provision for income taxes** | **590** | 1,500 | **2,052** | 3,970 |
| **Net income** | **$77,388** | $64,633 | **$152,999** | $126,247 |
| **Other comprehensive income** | | | | |
| Employee benefit plans activity | **$56** | $95 | **$113** | $189 |
| Total other comprehensive income | **56** | 95 | **113** | 189 |
| Comprehensive income | **$77,444** | $64,728 | **$153,112** | $126,436 |

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

# CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

*GreenStone Farm Credit Services, ACA*
*(in thousands)*
*(Unaudited)*

| | Protected Members' Equity | Capital Stock and Participation Certificates | Unallocated Surplus | Accumulated Other Comprehensive Loss | Total Members' Equity |
|---|---|---|---|---|---|
| Balance at December 31, 2022 | $1 | $25,891 | $2,237,685 | ($3,603) | $2,259,974 |
| Cumulative effect of change in accounting principle | -- | -- | 3,305 | -- | 3,305 |
| Net income | -- | -- | 126,247 | -- | 126,247 |
| Other comprehensive income | -- | -- | -- | 189 | 189 |
| Unallocated surplus designated for patronage distributions | -- | -- | (59,540) | -- | (59,540) |
| Capital stock and participation certificates issued | -- | 928 | -- | -- | 928 |
| Capital stock and participation certificates retired | -- | (702) | -- | -- | (702) |
| Balance at June 30, 2023 | $1 | $26,117 | $2,307,697 | ($3,414) | $2,330,401 |
| Balance at December 31, 2023 | $1 | $26,475 | $2,406,452 | ($2,351) | $2,430,577 |
| **Net income** | **--** | **--** | **152,999** | **--** | **152,999** |
| **Other comprehensive income** | **--** | **--** | **--** | **113** | **113** |
| **Unallocated surplus designated for patronage distributions** | **--** | **--** | **(59,916)** | **--** | **(59,916)** |
| **Capital stock and participation certificates issued** | **--** | **1,006** | **--** | **--** | **1,006** |
| **Capital stock and participation certificates retired** | **(1)** | **(691)** | **--** | **--** | **(692)** |
| **Balance at June 30, 2024** | **$ --** | **$26,790** | **$2,499,535** | **($2,238)** | **$2,524,087** |

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

#### Principles of Consolidation

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

#### Recently Issued or Adopted Accounting Pronouncements

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

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

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

Throughout Note 2 accrued interest receivable on loans of $104.4 million at June 30, 2024, and $100.3 million at December 31, 2023, has been excluded from the amortized cost of loans and is presented in "Accrued interest receivable" in the Consolidated Statements of Condition.

**Loans by Type**

(dollars in thousands)

| As of: | **June 30, 2024** | | December 31, 2023 | |
|---|---|---|---|---|
| | **Amortized Cost** | **Percentage** | Amortized Cost | Percentage |
| Real estate mortgage | **$6,467,038** | **51.1%** | $6,358,071 | 50.8% |
| Production and intermediate-term | **2,233,704** | **17.6** | 2,197,637 | 17.6 |
| Agribusiness | **2,905,077** | **22.9** | 2,939,026 | 23.5 |
| Other | **1,063,303** | **8.4** | 1,010,975 | 8.1 |
| Total | **$12,669,122** | **100.0%** | $12,505,709 | 100.0% |

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

#### Delinquency

**Aging Analysis of Loans at Amortized Cost**

| (in thousands)<br>**As of June 30, 2024** | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total | Accruing Loans 90 Days or More Past Due |
|---|---|---|---|---|---|---|
| **Real estate mortgage** | **$13,747** | **$832** | **$14,579** | **$6,452,459** | **$6,467,038** | **$46** |
| **Production and intermediate-term** | **10,048** | **919** | **10,967** | **2,222,737** | **2,233,704** | **--** |
| **Agribusiness** | **503** | **8,440** | **8,943** | **2,896,134** | **2,905,077** | **--** |
| **Other** | **1,405** | **--** | **1,405** | **1,061,898** | **1,063,303** | **--** |
| **Total** | **$25,703** | **$10,191** | **$35,894** | **$12,633,228** | **$12,669,122** | **$46** |

| As of December 31, 2023 | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total | Accruing Loans 90 Days or More Past Due |
|---|---|---|---|---|---|---|
| Real estate mortgage | $9,564 | $387 | $9,951 | $6,348,120 | $6,358,071 | $ -- |
| Production and intermediate-term | 3,648 | 1,481 | 5,129 | 2,192,508 | 2,197,637 | -- |
| Agribusiness | 171 | 7,830 | 8,001 | 2,931,025 | 2,939,026 | -- |
| Other | 2,284 | 139 | 2,423 | 1,008,552 | 1,010,975 | -- |
| Total | $15,667 | $9,837 | $25,504 | $12,480,205 | $12,505,709 | $ -- |

## Nonaccrual Loans

**Nonaccrual Loans Information**

| | **As of June 30, 2024** | | **For the Six Months Ended June 30, 2024** |
|---|---|---|---|
| (in thousands) | Amortized Cost | Amortized Cost Without Allowance | Interest Income Recognized |
| Nonaccrual loans: | | | |
| Real estate mortgage | **$7,776** | **$7,237** | **$679** |
| Production and intermediate-term | **2,287** | **1,454** | **508** |
| Agribusiness | **31,492** | **--** | **5** |
| Other | **2,502** | **538** | **15** |
| Total | **$44,057** | **$9,229** | **$1,207** |

| | As of December 31, 2023 | | For the Six Months Ended June 30, 2023 |
|---|---|---|---|
| | Amortized Cost | Amortized Cost Without Allowance | Interest Income Recognized |
| Nonaccrual loans: | | | |
| Real estate mortgage | $20,663 | $6,278 | $604 |
| Production and intermediate-term | 3,325 | 427 | 130 |
| Agribusiness | 17,399 | -- | -- |
| Other | 2,564 | 487 | 40 |
| Total | $43,951 | $7,192 | $774 |

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

## Loan Modifications Granted to Borrowers Experiencing Financial Difficulty

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

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

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

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

**Changes in Allowance for Credit Losses**

| (in thousands)<br>Six months ended June 30, | **2024** | 2023 |
|---|---|---|
| **Allowance for Credit Losses on Loans** | | |
| Balance at beginning of period | **$35,874** | $40,889 |
| Cumulative effect of change in accounting principle | **--** | (8,134) |
| Provision for credit losses on loans | **8,022** | 25,260 |
| Loan recoveries | **197** | 248 |
| Loan charge-offs | **(5,283)** | (6,488) |
| Balance at end of period | **$38,810** | $51,775 |
| **Allowance for Credit Losses on Unfunded Commitments** | | |
| Balance at beginning of period | **$8,120** | $3,826 |
| Cumulative effect of change in accounting principle | **--** | 4,805 |
| Provision for (reversal of) credit losses on unfunded commitments | **1,948** | (1,098) |
| Balance at end of period | **$10,068** | $7,533 |
| Total allowance for credit losses | **$48,878** | $59,308 |

The allowance for credit losses on loans did not change significantly from December 31, 2023.

## NOTE 3: CONTINGENCIES AND COMMITMENTS

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

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

Refer to Note 11 in our 2023 Annual Report for additional detail regarding contingencies and commitments.

## NOTE 4: FAIR VALUE MEASUREMENTS

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

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

### Non-Recurring Basis

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

**Assets Measured at Fair Value on a Non-Recurring Basis**

(in thousands)

| **As of June 30, 2024** | Fair Value Measurement Using | | | Total Fair |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Value |
| **Loans** | **$ --** | **$ --** | **$22,010** | **$22,010** |
| **Acquired property** | **--** | **--** | **5,333** | **5,333** |

| As of December 31, 2023 | Fair Value Measurement Using | | | Total Fair |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Value |
| Loans | $ -- | $ -- | $26,523 | $26,523 |
| Acquired property | -- | -- | 947 | 947 |

### Valuation Techniques

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

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

## NOTE 5: SUBSEQUENT EVENTS

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