AgHeritage Farm Credit Services, ACA

Quarterly Report
September 30, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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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 harvest of the 2024 crops in our area is nearing completion. We have observed good yields, however, current crop prices relative to costs of production will result in many borrowers having negative cash flow margins. Our borrowers generally had strong balance sheets going into the 2024 crop, but given these conditions, we expect to experience some decline in credit quality over the next few quarters. Land values in our area are stable to slightly higher compared to the prior year.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $2.4 billion at September 30, 2024, an increase of $290.6 million from December 31, 2023. The increase was primarily due to growth in the production and intermediate-term and real estate mortgage loan portfolios.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2023. Adversely classified loans increased to 2.5% of the portfolio at September 30, 2024, from 1.5% of the portfolio at December 31, 2023. Adversely classified loans are loans we have identified as showing some credit weakness according to our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for credit losses on loans.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At September 30, 2024, $30.1 million of our loans were substantially guaranteed under these government programs.

Nonperforming Assets

Components of Nonperforming Assets

(dollars in thousands) As of:	**September 30, 2024**	December 31, 2023
Loans:		
Nonaccrual	**$ 12,870**	$ 8,991
Accruing loans 90 days or more past due	**--**	255
Total nonperforming loans	**12,870**	9,246
Other property owned	**446**	--
Total nonperforming assets	**$ 13,316**	$ 9,246
Total nonperforming loans as a percentage of total loans	**0.5%**	0.4%
Nonaccrual loans as a percentage of total loans	**0.5%**	0.4%
Current nonaccrual loans as a percentage of total nonaccrual loans	**49.7%**	89.1%
Total delinquencies as a percentage of total loans[1]	**0.8%**	0.2%

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

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

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

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

Allowance for Credit Losses on Loans

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

Allowance for Credit Losses on Loans Coverage Ratios

As of:	**September 30, 2024**	December 31, 2023
Allowance for credit losses on loans as a percentage of:		
Loans	**0.4%**	0.3%
Nonaccrual loans	**76.3%**	65.9%
Total nonperforming loans	**76.3%**	64.1%

Total allowance for credit losses on loans was $9.8 million at September 30, 2024, and $5.9 million at December 31, 2023. The increase from December 31, 2023, was primarily related to the establishment of specific reserves for one relationship with multiple agribusiness and real estate mortgage loans, as well as an increase in the general reserves for real estate mortgage loans primarily due to growth in the portfolio and a slight decline in credit quality. This increase was partially offset by a charge-off on one production and intermediate-term relationship.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the nine months ended September 30,	**2024**	2023
Net income	**$ 34,945**	$ 34,037
Return on average assets	**2.0%**	2.0%
Return on average members' equity	**9.7%**	10.3%

Changes presented in the profitability information table relate directly to:

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

Changes in Significant Components of Net Income

(in thousands) For the nine months ended September 30,		2024		2023		Increase (decrease) in net income
Net interest income	**$**	**49,934**	$	46,729	**$**	**3,205**
Provision for credit losses		**5,066**		1,703		**(3,363)**
Non-interest income		**12,101**		10,246		**1,855**
Non-interest expense		**21,153**		20,184		**(969)**
Provision for income taxes		**871**		1,051		**180**
Net income	**$**	**34,945**	$	34,037	**$**	**908**

Provision for Credit Losses

The "Provision for credit losses" in the Consolidated Statements of Comprehensive Income includes a provision for credit losses on loans as well as a provision for credit losses on unfunded commitments. The provision for credit losses for the period ended September 30, 2024, was $5.1 million and was primarily due to the establishment of specific reserves for one relationship with multiple agribusiness and real estate mortgage loans, as well as an increase in the general reserves for real estate mortgage loans primarily due to growth in the portfolio and a slight decline in credit quality. This is compared to a provision for credit losses of $1.7 million for the period ended September 30, 2023, which was primarily due to specific reserves being established for certain loans in our capital markets portfolio.

Non-Interest Income

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

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

Other Non-Interest Income: The increase in other non-interest income was primarily due to our share of the Allocated Insurance Reserve Accounts (AIRA) distribution received from the Farm Credit System Insurance Corporation (FCSIC) of $643 thousand in 2024. The AIRA was established by FCSIC when premiums collected increased the level of the Farm Credit Insurance Fund beyond the required 2% of insured debt. There was no AIRA distribution in 2023. Refer to the 2023 Annual Report for additional information about the FCSIC.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable is scheduled to mature on May 31, 2026. We intend to renegotiate the note payable no later than the maturity date. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. However, we maintain some exposure to interest rates, primarily from loans to customers which may not have a component of our line of credit with an exact repricing attribute. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

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

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

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

Total members' equity increased $27.5 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 capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 6 in our 2023 Annual Report for a more complete description of these ratios.

Regulatory Capital Requirements and Ratios

As of:	**September 30, 2024**	December 31, 2023	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**15.9%**	16.1%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**15.9%**	16.1%	6.0%	2.5%	8.5%
Total capital ratio	**16.1%**	16.4%	8.0%	2.5%	10.5%
Permanent capital ratio	**15.9%**	16.2%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**17.1%**	17.6%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**17.0%**	17.5%	1.5%	N/A	1.5%

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

CERTIFICATION

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

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

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

Chris A. Hanner
Interim Chief Financial Officer
AgHeritage Farm Credit Services, ACA

November 8, 2024

CONSOLIDATED STATEMENTS OF CONDITION

AgHeritage Farm Credit Services, ACA
(in thousands)

As of:		September 30, 2024		December 31, 2023
		(Unaudited)		
ASSETS				
Loans	**$**	**2,415,608**	$	2,125,055
Allowance for credit losses on loans		**9,817**		5,925
Net loans		**2,405,791**		2,119,130
Investment in AgriBank, FCB		**81,198**		77,478
Investment securities		**26**		50
Accrued interest receivable		**45,356**		39,348
Deferred tax assets, net		**690**		47
Other assets		**24,671**		21,082
Total assets	**$**	**2,557,732**	$	2,257,135
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**2,029,260**	$	1,754,863
Accrued interest payable		**20,598**		16,937
Patronage distribution payable		**7,513**		10,000
Other liabilities		**7,459**		9,943
Total liabilities		**2,064,830**		1,791,743
Contingencies and commitments (Note 3)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**3,593**		3,632
Unallocated surplus		**489,884**		462,378
Accumulated other comprehensive loss		**(575)**		(618)
Total members' equity		**492,902**		465,392
Total liabilities and members' equity	**$**	**2,557,732**	$	2,257,135

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Three Months Ended		Nine Months Ended	
For the period ended September 30,	**2024**	2023	**2024**	2023
Interest income	**$ 37,690**	$ 34,132	**$ 104,743**	$ 92,085
Interest expense	**20,598**	17,367	**54,809**	45,356
Net interest income	**17,092**	16,765	**49,934**	46,729
Provision for credit losses	**3,426**	(559)	**5,066**	1,703
Net interest income after provision for credit losses	**13,666**	17,324	**44,868**	45,026
Non-interest income				
Patronage income	**2,291**	2,506	**7,518**	7,169
Financially related services income	**91**	118	**112**	155
Fee income	**1,096**	867	**3,571**	2,614
Other non-interest income	**113**	41	**900**	308
Total non-interest income	**3,591**	3,532	**12,101**	10,246
Non-interest expense				
Salaries and employee benefits	**3,461**	2,989	**10,364**	10,034
Other operating expense	**3,533**	3,437	**10,657**	10,134
Other non-interest expense	**129**	1	**132**	16
Total non-interest expense	**7,123**	6,427	**21,153**	20,184
Income before income taxes	**10,134**	14,429	**35,816**	35,088
Provision for income taxes	**378**	614	**871**	1,051
Net income	**$ 9,756**	$ 13,815	**$ 34,945**	$ 34,037
Other comprehensive income				
Employee benefit plans activity	**$ 15**	$ 23	**$ 43**	$ 69
Total other comprehensive income	**15**	23	**43**	69
Comprehensive income	**$ 9,771**	$ 13,838	**$ 34,988**	$ 34,106

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

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

	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2022	$ 3,514	$ 419,681	$ (826)	$ 422,369
Cumulative effect of change in accounting principle	--	6,151	--	6,151
Net income	--	34,037	--	34,037
Other comprehensive income	--	--	69	69
Unallocated surplus designated for patronage distributions	--	(6,839)	--	(6,839)
Capital stock and participation certificates issued	195	--	--	195
Capital stock and participation certificates retired	(152)	--	--	(152)
Balance at September 30, 2023	$ 3,557	$ 453,030	$ (757)	$ 455,830
Balance at December 31, 2023	$ 3,632	$ 462,378	$ (618)	$ 465,392
Net income	**--**	**34,945**	**--**	**34,945**
Other comprehensive income	**--**	**--**	**43**	**43**
Unallocated surplus designated for patronage distributions	**--**	**(7,439)**	**--**	**(7,439)**
Capital stock and participation certificates issued	**326**	**--**	**--**	**326**
Capital stock and participation certificates retired	**(365)**	**--**	**--**	**(365)**
Balance at September 30, 2024	**$ 3,593**	**$ 489,884**	**$ (575)**	**$ 492,902**

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 nine months ended September 30, 2024, are not necessarily indicative of the results to be expected for the year ending December 31, 2024. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2023 (2023 Annual Report).

Principles of Consolidation

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

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standard 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 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 $45.4 million at September 30, 2024, and $39.3 million at December 31, 2023, has been excluded from the amortized cost of loans and is presented in “Accrued interest receivable” in the Consolidated Statements of Condition.

Loans by Type

(dollars in thousands)

As of:	**September 30, 2024**		December 31, 2023	
	Amortized Cost	%	Amortized Cost	%
Real estate mortgage	**$ 1,215,947**	**50.3%**	$ 1,099,108	51.7%
Production and intermediate-term	**600,670**	**24.9%**	468,026	22.0%
Agribusiness	**485,401**	**20.1%**	458,072	21.6%
Other	**113,590**	**4.7%**	99,849	4.7%
Total	**$ 2,415,608**	**100.0%**	$ 2,125,055	100.0%

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

Delinquency

Aging Analysis of Loans at Amortized Cost

(in thousands) **As of September 30, 2024**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$ 2,637**	**$ 3,607**	**$ 6,244**	**$ 1,209,703**	**$ 1,215,947**	**$ --**
Production and intermediate-term	**1,585**	**1,265**	**2,850**	**597,820**	**600,670**	**--**
Agribusiness	**9,153**	**1,401**	**10,554**	**474,847**	**485,401**	**--**
Other	**121**	**--**	**121**	**113,469**	**113,590**	**--**
Total	**$ 13,496**	**$ 6,273**	**$ 19,769**	**$ 2,395,839**	**$ 2,415,608**	**$ --**

As of December 31, 2023		30-89 Days Past Due		90 Days or More Past Due		Total Past Due		Not Past Due or Less Than 30 Days Past Due		Total		Accruing Loans 90 Days or More Past Due
Real estate mortgage	$	3,157	$	158	$	3,315	$	1,095,793	$	1,099,108	$	--
Production and intermediate-term		928		12		940		467,086		468,026		--
Agribusiness		--		15		15		458,057		458,072		--
Other		311		255		566		99,283		99,849		255
Total	$	4,396	$	440	$	4,836	$	2,120,219	$	2,125,055	$	255

Nonaccrual Loans

Nonaccrual Loans Information

	As of September 30, 2024				**For the Nine Months Ended September 30, 2024**	
(in thousands)		Amortized Cost		Amortized Cost Without Allowance		Interest Income Recognized
Nonaccrual loans:						
Real estate mortgage	**$**	**4,736**	**$**	**4,186**	**$**	**96**
Production and intermediate-term		**2,666**		**301**		**23**
Agribusiness		**5,257**		**24**		**5**
Other		**211**		**211**		**6**
Total	**$**	**12,870**	**$**	**4,722**	**$**	**130**

	As of December 31, 2023				For the Nine Months Ended September 30, 2023	
		Amortized Cost		Amortized Cost Without Allowance		Interest Income Recognized
Nonaccrual loans:						
Real estate mortgage	$	4,080	$	4,080	$	98
Production and intermediate-term		4,481		123		--
Agribusiness		34		34		--
Other		396		395		4
Total	$	8,991	$	4,632	$	102

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

Loan Modifications Granted to Borrowers Experiencing Financial Difficulty

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

Loan Modifications at Amortized Cost[1]

(dollars in thousands) **For the nine months ended September 30, 2024**		Term Extension		Combination - Interest Rate Reduction and Term Extension		Total	Percentage of Total Loans
Production and intermediate-term	**$**	**7,593**	**$**	**269**	**$**	**7,862**	**0.3%**
Agribusiness		**1,239**		**--**		**1,239**	**0.1%**
Total	**$**	**8,832**	**$**	**269**	**$**	**9,101**	**0.4%**
Loan modifications granted as a percentage of total loans		**0.4%**		**0.0%**		**0.4%**	

For the nine months ended September 30, 2023	Term Extension	Combination - Interest Rate Reduction and Term Extension	Total	Percentage of Total Loans
Real estate mortgage	$ 277	$ --	$ 277	0.0%
Production and intermediate-term	5,323	--	5,323	0.2%
Agribusiness	4,218	--	4,218	0.2%
Total	$ 9,818	$ --	$ 9,818	0.4%

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

Financial Effect of Loan Modifications

For the nine months ended September 30, 2024	Weighted Average Interest Rate Reduction (%)	Weighted Average Term Extension (months)
Production and intermediate-term		
Term extension		**16**
Combination - interest rate reduction and term extension	**2.6%**	**84**
Agribusiness		
Term extension		**14**

For the nine months ended September 30, 2023	Weighted Average Interest Rate Reduction (%)	Weighted Average Term Extension (months)
Real estate mortgage		
Term extension		26
Production and intermediate-term		
Term extension		15
Agribusiness		
Term extension		26

The following table presents the amortized cost of loans to borrowers experiencing financial difficulty that defaulted during the nine months ended September 30, 2024, and were modified in the twelve months preceding the default. There were no loans to borrowers experiencing financial difficulty that defaulted during the nine months ended September 30, 2023, in which the modifications were within twelve months preceding the default.

Loan Modifications that Subsequently Defaulted[1]

(in thousands) **For the nine months ended September 30, 2024**	Term Extension
Production and intermediate-term	**$ 175**

[1]Excludes loans that defaulted within twelve months of modification, but were paid off or sold prior to period end.

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

Payment Status of Loan Modifications[1]

(in thousands) **As of September 30, 2024**	Not Past Due or Less Than 30 Days Past Due
Production and intermediate-term	**$ 7,698**
Agribusiness	**1,239**
Total	**$ 8,937**

As of September 30, 2023		Not Past Due or Less Than 30 Days Past Due
Real estate mortgage	$	277
Production and intermediate-term		5,323
Agribusiness		4,218
Total	$	9,818

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

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

Additional commitments were $7.5 million at September 30, 2024, and $3.3 million at December 31, 2023, to lend to borrowers experiencing financial difficulty whose loans were modified during the nine months ended September 30, 2024, and during the year ended December 31, 2023, respectively.

Allowance for Credit Losses

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

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

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

Changes in Allowance for Credit Losses

(in thousands) Nine months ended September 30,		**2024**		2023
Allowance for Credit Losses on Loans				
Balance at beginning of period	**$**	**5,925**	$	11,295
Cumulative effect of change in accounting principle		**--**		(6,784)
Provision for credit losses on loans		**4,836**		1,581
Loan recoveries		**36**		4
Loan charge-offs		**(980)**		(75)
Balance at end of period	**$**	**9,817**	$	6,021
Allowance for Credit Losses on Unfunded Commitments				
Balance at beginning of period	**$**	**633**	$	238
Cumulative effect of change in accounting principle		**--**		140
Provision for credit losses on unfunded commitments		**230**		122
Balance at end of period	**$**	**863**	$	500
Total allowance for credit losses	**$**	**10,680**	$	6,521

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

NOTE 3: CONTINGENCIES AND COMMITMENTS

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

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

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

NOTE 4: FAIR VALUE MEASUREMENTS

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

We did not have any assets or liabilities measured at fair value on a recurring basis at September 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 September 30, 2024	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Loans	**$ --**	**$ --**	**$ 5,299**	**$ 5,299**
Other property owned	**--**	**--**	**464**	**464**

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

Valuation Techniques

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

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

NOTE 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through November 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.