Farm Credit Services of Western Arkansas, 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 Farm Credit Services of Western Arkansas, ACA and its subsidiaries, Farm Credit Services of Western Arkansas, FLCA and Farm Credit Services of Western Arkansas, 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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30 East 7th Street, Suite 1600
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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

Weather conditions at the end of September 2024 were drier than at the end of June 2024. At the end of June 2024 there was 67.8% of Arkansas showing drought conditions compared to the end of September 2024 when 76.6% of Arkansas was showing drought conditions, with 30.9% in a moderate drought and 2.6% being in a severe drought. Significant parts of our territory in western Arkansas are in a moderate drought and there are two small areas of severe drought in northwest Arkansas.

According to Express Markets, Inc. (EMI) as of October 1, 2024, the number of broilers processed decreased 1.1% from a year prior to 170.8 million head, with average live weights increasing by 3.6% year over year to 6.7 pounds. Weekly production for the third quarter of 2024 increased 2.4% from the previous year. Based on current hatchery and production data, slaughter is anticipated to move above year prior levels in the fourth quarter of 2024, however the extent of the increase will depend partly on the losses from Hurricane Helene. Nineteen-state weekly egg sets increased 5.3% from a year prior and chick placements increased 4.9% from a year prior for the week ended September 21, 2024. These chick placements totaled 183 million and are anticipated to hit slaughter during early to mid-November.

Based on EMI data for the week ended September 14, 2024, estimated Federally Inspected (F.I.) cattle slaughter was 620 thousand head which is a 1.8% decrease compared to the prior year. F.I. cattle dressed weights averaged about 852 pounds per head and increased 2.8% compared to the prior year. The heavier dressed weights increased F.I. beef production 1.1% compared to the prior year. In July 2024, United States beef exports, excluding variety meats, totaled 257.7 million pounds carcass weight equivalent, an increase of 7.3% compared to the year prior and a decrease of 2.8% year-to-date. Beef exports increased 13.6% to Japan, 3.8% to China, and 10.4% to Mexico from the previous year.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.9 billion at September 30, 2024, an increase of $91.1 million from December 31, 2023. The increase was primarily due to growth in our portfolio, particularly in our real estate mortgage and agribusiness loan portfolios, and great opportunities to support our customers.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2023. Adversely classified loans increased slightly to 1.4% of the portfolio at September 30, 2024, from 1.3% 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, $26.5 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	**$ 11,902**	$ 13,761
Accruing loans 90 days or more past due	**--**	47
Total nonperforming loans	**11,902**	13,808
Other property owned	**718**	370
Total nonperforming assets	**$ 12,620**	$ 14,178
Total nonperforming loans as a percentage of total loans	**0.6%**	0.8%
Nonaccrual loans as a percentage of total loans	**0.6%**	0.8%
Current nonaccrual loans as a percentage of total nonaccrual loans	**53.3%**	65.0%
Total delinquencies as a percentage of total loans[1]	**0.5%**	0.5%

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

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

The decrease in nonaccrual loans was primarily due to one relationship in our capital markets portfolio being partially charged-off and subsequently transferred from nonaccrual to other property owned as well as repayments made on a nonaccrual real estate mortgage loan during the period ended September 30, 2024. The decrease was partially offset by one relationship in our capital markets portfolio transferring to nonaccrual during the period ended September 30, 2024. Nonaccrual loans remained at an acceptable level at September 30, 2024, and December 31, 2023.

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	**0.3%**	0.2%
Nonaccrual loans	**42.9%**	31.9%
Total nonperforming loans	**42.9%**	31.8%

Total allowance for credit losses on loans was $5.1 million at September 30, 2024, and $4.4 million at December 31, 2023. The increase from December 31, 2023, was primarily related to the establishment of specific reserves for one relationship in our capital markets portfolio which transferred to nonaccrual during the period ended September 30, 2024. The increase was partially offset by a charge-off in our capital markets portfolio during the period ended September 30, 2024.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the nine months ended September 30,	**2024**	2023
Net income	**$ 24,800**	$ 24,361
Return on average assets	**1.7%**	1.7%
Return on average members' equity	**8.4%**	8.7%

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	**$ 42,364**	$ 41,669	**$ 695**
Provision for credit losses	**1,962**	901	**(1,061)**
Non-interest income	**9,752**	8,173	**1,579**
Non-interest expense	**26,281**	25,111	**(1,170)**
Benefit from income taxes	**(927)**	(531)	**396**
Net income	**$ 24,800**	$ 24,361	**$ 439**

Provision for Credit Losses

The "Provision for credit losses" in the Consolidated Statements of Income includes a provision for credit losses on loans as well as a provision for (reversal of) credit losses on unfunded commitments. The provision for credit losses recorded for the period ended September 30, 2024, was $2.0 million and was primarily due to the establishment of specific reserves for one relationship in our capital markets portfolio which transferred to nonaccrual during the period ended September 30, 2024. While the provision for credit losses for the period ended September 30, 2023, was $901 thousand and was primarily due to specific reserves being established for certain loans in our capital markets portfolio. This was partially offset by a reversal of credit losses on loans due to one large nonaccrual customer that worked out favorably due to payments on their loan obligations.

Non-Interest Income

The change in other non-interest income was primarily due to a net gain, which includes a loss on sale of assets presented as non-interest expense, of approximately $700 thousand related to the sale of our corporate headquarters. In August 2024, we moved into our new corporate headquarters campus which will allow for growth in employee counts as well as additional space for board meetings and employee training. In addition, other non-interest income increased due to our share of the Allocated Insurance Reserve Accounts (AIRA) distribution received from the Farm Credit System Insurance Corporation (FCSIC) of $527 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 was scheduled to mature on May 31, 2025. However, it was renewed early for $2.0 billion with a maturity date of May 31, 2027. 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 $17.0 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	**17.9%**	17.9%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**17.9%**	17.9%	6.0%	2.5%	8.5%
Total capital ratio	**18.1%**	18.2%	8.0%	2.5%	10.5%
Permanent capital ratio	**17.9%**	17.9%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**17.9%**	18.1%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**17.6%**	17.7%	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 10 in our 2023 Annual Report.

CERTIFICATION

The undersigned have reviewed the September 30, 2024, Quarterly Report of Farm Credit Services of Western Arkansas, 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.

Cody Jones
Chairperson of the Board
Farm Credit Services of Western Arkansas, ACA

Brandon Haberer
President and Chief Executive Officer
Farm Credit Services of Western Arkansas, ACA

Lori Schumacher
Senior Vice President of Finance and Chief Financial Officer
Farm Credit Services of Western Arkansas, ACA

November 7, 2024

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Services of Western Arkansas, ACA
(in thousands)

As of:	**September 30, 2024**	December 31, 2023
	(Unaudited)	
ASSETS		
Loans	**$ 1,869,738**	$ 1,778,612
Allowance for credit losses on loans	**5,102**	4,390
Net loans	**1,864,636**	1,774,222
Investment in AgriBank, FCB	**61,828**	60,610
Accrued interest receivable	**16,534**	14,913
Premises and equipment, net	**20,509**	15,029
Other assets	**22,022**	18,302
Total assets	**$ 1,985,529**	$ 1,883,076
LIABILITIES		
Note payable to AgriBank, FCB	**$ 1,541,247**	$ 1,445,252
Accrued interest payable	**15,137**	13,336
Deferred tax liabilities, net	**273**	145
Patronage distribution payable	**7,875**	11,700
Other liabilities	**20,703**	29,317
Total liabilities	**1,585,235**	1,499,750
Contingencies and commitments (Note 3)		
MEMBERS' EQUITY		
Capital stock and participation certificates	**6,247**	6,232
Unallocated surplus	**394,047**	377,094
Total members' equity	**400,294**	383,326
Total liabilities and members' equity	**$ 1,985,529**	$ 1,883,076

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

CONSOLIDATED STATEMENTS OF INCOME

Farm Credit Services of Western Arkansas, ACA
(in thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
For the period ended September 30,	**2024**	2023	**2024**	2023
Interest income	**$ 29,022**	$ 27,084	**$ 85,266**	$ 77,930
Interest expense	**15,137**	12,973	**42,902**	36,261
Net interest income	**13,885**	14,111	**42,364**	41,669
Provision for credit losses	**1,835**	(459)	**1,962**	901
Net interest income after provision for credit losses	**12,050**	14,570	**40,402**	40,768
Non-interest income				
Patronage income	**1,760**	1,911	**5,796**	5,685
Financially related services income	**8**	4	**15**	9
Fee income	**854**	879	**2,403**	2,313
Other non-interest income	**2**	2	**1,538**	166
Total non-interest income	**2,624**	2,796	**9,752**	8,173
Non-interest expense				
Salaries and employee benefits	**4,948**	4,759	**14,952**	14,215
Other operating expense	**4,054**	3,919	**10,954**	10,896
Other non-interest expense	**84**	--	**375**	--
Total non-interest expense	**9,086**	8,678	**26,281**	25,111
Income before income taxes	**5,588**	8,688	**23,873**	23,830
Benefit from income taxes	**(414)**	(202)	**(927)**	(531)
Net income	**$ 6,002**	$ 8,890	**$ 24,800**	$ 24,361

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Services of Western Arkansas, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2022	$ 6,118	$ 357,061	$ 363,179
Cumulative effect of change in accounting principle	--	(321)	(321)
Net income	--	24,361	24,361
Unallocated surplus designated for patronage distributions	--	(8,250)	(8,250)
Capital stock and participation certificates issued	465	--	465
Capital stock and participation certificates retired	(384)	--	(384)
Balance at September 30, 2023	$ 6,199	$ 372,851	$ 379,050
Balance at December 31, 2023	$ 6,232	$ 377,094	$ 383,326
Net income	**--**	**24,800**	**24,800**
Unallocated surplus designated for patronage distributions	**--**	**(7,847)**	**(7,847)**
Capital stock and participation certificates issued	**433**	**--**	**433**
Capital stock and participation certificates retired	**(418)**	**--**	**(418)**
Balance at September 30, 2024	**$ 6,247**	**$ 394,047**	**$ 400,294**

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).

Certain amounts in prior periods' Consolidated Financial Statements have been reclassified to conform to the current period's presentation.

Principles of Consolidation

The Consolidated Financial Statements present the consolidated financial results of Farm Credit Services of Western Arkansas, ACA and its subsidiaries Farm Credit Services of Western Arkansas, FLCA and Farm Credit Services of Western Arkansas, 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 $16.5 million at September 30, 2024, and $14.9 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	**$ 1,207,594**	**64.6%**	$ 1,138,184	64.0%
Production and intermediate-term	**197,610**	**10.6%**	206,700	11.6%
Agribusiness	**335,490**	**17.9%**	310,579	17.5%
Other	**129,044**	**6.9%**	123,149	6.9%
Total	**$ 1,869,738**	**100.0%**	$ 1,778,612	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) **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	**$ 3,951**	**$ 3,234**	**$ 7,185**	**$ 1,200,409**	**$ 1,207,594**	**$ --**
Production and intermediate-term	**594**	**1,186**	**1,780**	**195,830**	**197,610**	**--**
Agribusiness	**20**	**31**	**51**	**335,439**	**335,490**	**--**
Other	**90**	**--**	**90**	**128,954**	**129,044**	**--**
Total	**$ 4,655**	**$ 4,451**	**$ 9,106**	**$ 1,860,632**	**$ 1,869,738**	**$ --**

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	$ 3,942	$ 2,585	$ 6,527	$ 1,131,657	$ 1,138,184	$ --
Production and intermediate-term	1,208	1,181	2,389	204,311	206,700	47
Agribusiness	--	--	--	310,579	310,579	--
Other	--	--	--	123,149	123,149	--
Total	$ 5,150	$ 3,766	$ 8,916	$ 1,769,696	$ 1,778,612	$ 47

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	**$ 7,159**	**$ 5,595**	**$ 416**
Production and intermediate-term	**1,249**	**1,093**	**103**
Agribusiness	**3,368**	**157**	**--**
Other	**126**	**21**	**1**
Total	**$ 11,902**	**$ 6,866**	**$ 520**

	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	$ 7,932	$ 6,876	$ 316
Production and intermediate-term	5,668	1,096	11
Other	161	28	--
Total	$ 13,761	$ 8,000	$ 327

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.

There were no loan modifications at amortized cost for the nine months ended September 30, 2024. This excludes loans that were modified during the period, but were paid off or sold prior to period end.

Loan Modifications at Amortized Cost[1]

For the nine months ended September 30, 2023		Interest Rate Reduction		Term Extension		Total	Percentage of Total Loans
Real estate mortgage	$	133	$	352	$	485	0.02%
Production and intermediate-term		--		325		325	0.02%
Agribusiness		--		2,416		2,416	0.13%
Total	$	133	$	3,093	$	3,226	0.17%
Loan modifications granted as a percentage of total loans		0.01%		0.16%		0.17%	

[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)	Principal Forgiveness ($ in thousands)
Production and intermediate-term			
Principal forgiveness			**11**

For the nine months ended September 30, 2023	Weighted Average Interest Rate Reduction (%)	Weighted Average Term Extension (months)	Principal Forgiveness ($ in thousands)
Real estate mortgage			
Interest rate reduction	1.0%		
Term extension		21	
Principal forgiveness			54
Production and intermediate-term			
Term extension		12	
Principal forgiveness			340
Agribusiness			
Term extension		26	
Principal forgiveness			75

There were no loans to borrowers experiencing financial difficulty that defaulted during the nine months ended September 30, 2024, or 2023, in which the modifications were within twelve months preceding the default.

The following table presents the payment status at amortized cost of loans that have been modified for borrowers experiencing financial difficulty within twelve months of the respective reporting period. There were no loans at amortized cost that have been modified for borrowers experiencing financial difficulty within twelve months of the period ended September 30, 2024.

Payment Status of Loan Modifications[1]

As of September 30, 2023		Not Past Due or Less Than 30 Days Past Due
Real estate mortgage	$	485
Production and intermediate-term		325
Agribusiness		2,416
Total	$	3,226

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

There was no accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty at September 30, 2024. Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty was not material at September 30, 2023.

There were no commitments at September 30, 2024, to lend to borrowers experiencing financial difficulty whose loans have been modified during the nine months ended September 30, 2024. There were no material commitments at December 31, 2023, to lend to borrowers experiencing financial difficulty whose loans were modified during the year ended December 31, 2023.

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 poultry houses and 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	**$ 4,390**	$ 3,360
Cumulative effect of change in accounting principle	**--**	126
Provision for credit losses on loans	**1,878**	947
Loan recoveries	**15**	234
Loan charge-offs	**(1,181)**	(348)
Balance at end of period	**$ 5,102**	$ 4,319
Allowance for Credit Losses on Unfunded Commitments		
Balance at beginning of period	**$ 567**	$ 337
Cumulative effect of change in accounting principle	**--**	184
Provision for credit losses on unfunded commitments	**84**	(46)
Balance at end of period	**$ 651**	$ 475
Total allowance for credit losses	**$ 5,753**	$ 4,794

The change in the allowance for credit losses on loans from December 31, 2023, was primarily driven by the establishment of specific reserves for one relationship in our capital markets portfolio which transferred to nonaccrual during the period ended September 30, 2024. The increase was partially offset by a charge-off in our capital markets portfolio.

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	**$ --**	**$ --**	**$ 2,856**	**$ 2,856**
Other property owned	**--**	**--**	**826**	**826**

As of December 31, 2023	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Loans	$ --	$ --	$ 4,089	$ 4,089
Other property owned	--	--	426	426

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 7, 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.