HERITAGE LAND BANK, ACA

2024
Quarterly Report
Second Quarter

For the Quarter Ended June 30, 2024

REPORT OF MANAGEMENT

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

Mark Miller, Chief Executive Officer
August 9, 2024

Kevin Sampson, Chair, Board of Directors
August 9, 2024

Stephanie King, Chief Financial Officer
August 9, 2024

Second Quarter 2024 Financial Report

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HERITAGE LAND BANK, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

Significant Events

Effective February 27, 2024, a Letter of Intent was entered into by the boards of directors of the Association and Texas Farm Credit Services. This Letter of Intent set the framework for a merger of the two associations, subject to completion of satisfactory due diligence and necessary regulatory and stockholder approval.

The Association's board of directors is committed to returning earnings in the form of a cooperative dividend. In January 2024, the board of directors declared a cash cooperative dividend distribution of approximately $4.1 million from 2023 profits that was paid April 18, 2024. The cooperative dividend distribution equated to 60 basis points (0.6 percent). Since 2000, Heritage Land Bank has returned a total of $62.3 million in cash to borrowers.

In January of 2024, Chief Credit Officer, Charlotte Sellers, announced her retirement, effective March 1, 2024. On March 12, 2024, Mike Fuller was named Interim Chief Credit Officer of Heritage Land Bank. Mr. Fuller brings a wealth of experience to this role, with over 38 years in lending, including 26 years within the Farm Credit System, underscoring our commitment to maintaining strong leadership and expertise in our credit operations.

In December 2023, the Association entered into a Joint Management Agreement with Texas Farm Credit Services. The Agreement established Texas Farm Credit Services' CEO, Mark Miller, as CEO of both organizations.

Loan Portfolio

Total loans outstanding at June 30, 2024, including nonaccrual loans and sales contracts, were $689,570,194 compared to $714,704,961 at December 31, 2023, reflecting a decrease of 3.5 percent. Nonaccrual loans as a percentage of total loans outstanding were 1.7 percent at June 30, 2024, compared to 2.0 percent at December 31, 2023.

The Association recorded $8,154 in recoveries no charge-offs for the quarter ended June 30, 2024, and $11,176 in recoveries and no charge-offs for the same period in 2023. The Association's allowance for credit losses on loans was 0.8 percent of total loans outstanding as of June 30, 2024 and December 31, 2023.

During the second quarter, the association acquired the underlying collateral of one relationship and expects to collect the amount of the fair value of the collateral, which is $2,739,144.

Risk Exposure

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

	June 30, 2024		December 31, 2023	
	Amount	**%**	Amount	%
Nonaccrual	**$ 11,397,913**	**80.6%**	$ 13,940,749	100.0%
Other property owned, net	**2,739,144**	**19.4%**	-	0.0%
Total	**$ 14,137,057**	**100.0%**	$ 13,940,749	100.0%

Results of Operations

The Association had net income of $2,092,159 and $4,654,665 for the three and six months ended June 30, 2024, as compared to net income of $2,104,070 and $4,679,106 for the same periods in 2023, reflecting a decrease of 0.6 and 0.5 percent. Net interest income was $4,183,902 and $8,998,070 for the three and six months ended June 30, 2024, compared to $4,445,914 and $8,980,667 for the same period in 2023.

	Six Months Ended							
	June 30, 2024				June 30, 2023			
	Average Balance		**Interest**		Average Balance		Interest	
Loans	**$**	**710,909,626**	**$**	**19,321,519**	$	670,338,552	$	16,661,144
Interest-bearing liabilities		**617,130,643**		**10,323,449**		576,291,920		7,680,477
Impact of capital	**$**	**93,778,983**			$	94,046,632		
Net interest income			**$**	**8,998,070**			$	8,980,667

	2024 Average Yield	2023 Average Yield
Yield on loans	**5.47%**	5.01%
Cost of interest-bearing liabilities	**3.36%**	2.69%
Interest rate spread	**2.11%**	2.32%
Net interest income as a percentage of average earning assets	**2.55%**	2.70%

	Six Months Ended June 30, 2024 vs. June 30, 2023					
	Increase (decrease) due to					
	Volume		**Rate**		**Total**	
Interest income - loans	**$**	**1,011,196**	**$**	**1,649,179**	**$**	**2,660,375**
Interest expense		**545,792**		**2,097,180**		**2,642,972**
Net interest income	**$**	**465,404**	**$**	**(448,001)**	**$**	**17,403**

Interest income for the three and six months ended June 30, 2024, increased by $928,373 and $2,660,375, or 11.0 percent and 16.0 percent, from the same period of 2023, primarily due to increases in yields on earning assets and an increase in loan volume. Interest expense for the three and six months ended June 30, 2024, increased by $1,190,385 and $2,642,972, or 29.9 percent and 34.4 percent, from the same period of 2023 due to an increase in interest rates and an increase in debt volume. Average loan volume for the second quarter of 2024 was $704,188,609 compared to $670,151,523 second quarter of 2023. The average net interest rate spread on the loan portfolio for the second quarter of 2024 was 1.94 percent, compared to 2.28 percent in the second quarter of 2023.

The Association's return on average assets for the six months ended June 30, 2024, was 1.28 percent compared to 1.37 percent for the same period in 2023. The Association's return on average equity for the six months ended June 30, 2024, was 9.01 percent, compared to 9.30 percent for the same period in 2023.

Liquidity and Funding Sources

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

	June 30, 2024		December 31, 2023	
Note payable to the Bank	**$**	**600,239,855**	$	619,064,377
Accrued interest on note payable		**1,689,476**		1,669,593
Total	**$**	**601,929,331**	$	620,733,970

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2026. The primary source of liquidity and funding for the Association is a direct loan from the Bank. As of June 30, 2024, the Association was in default of two of the covenants of the GFA. The Bank granted a Limited Default Waiver through December 31, 2024.

The outstanding balance of $600,239,855 as of June 30, 2024, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 3.45 percent at June 30, 2024. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the GFA. The decrease in note payable to the Bank and related accrued interest payable since December 31, 2023, is due primarily to a decrease in net loan volume. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $88,837,902 at June 30, 2024. The maximum amount the Association may borrow from the Bank as of June 30, 2024, was $618,811,427 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, which is September 30, 2026, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

Capital Resources

The Association's capital position increased by $3,550,767 at June 30, 2024 compared to December 31, 2023. The Association's debt as a percentage of members' equity was 5.76:1 as of June 30, 2024, compared to 6.19:1 as of December 31, 2023.

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

Significant Recent Accounting Pronouncements

Refer to Note 1 – "Organization and Significant Accounting Policies" in this quarterly report for disclosures of recent accounting pronouncements which may impact the Association's consolidated financial position and results of operations and for critical accounting policies.

Relationship With the Farm Credit Bank of Texas

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

The annual and quarterly stockholder reports of the Bank are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. The annual and quarterly stockholder reports for the Bank are also available on its website at *www.farmcreditbank.com*.

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Heritage Land Bank, ACA, 4608 Kinsey Drive, Tyler, Texas 75703, or calling (903) 534-4975. The annual and quarterly stockholder reports for the Association are also available on its website at *www.heritagelandbank.com*. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *stephanie.king@heritagelandbank.com*.

HERITAGE LAND BANK, ACA

CONSOLIDATED BALANCE SHEETS

	June 30, 2024 (unaudited)	December 31, 2023
ASSETS		
Cash	$ **9,684**	$ 7,236
Loans	**689,570,194**	714,704,961
Less: allowance for credit losses on loans	**5,859,303**	5,758,996
Net loans	**683,710,891**	708,945,965
Accrued interest receivable	**4,496,199**	3,613,887
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**12,151,939**	12,151,939
Other	**1,582,764**	281,331
Other property owned, net	**2,739,144**	-
Premises and equipment, net	**7,645,390**	7,306,253
Other assets	**957,368**	554,468
Total assets	$ **713,293,379**	$ 732,861,079
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	$ **600,239,855**	$ 619,064,377
Accrued interest payable	**1,689,476**	1,669,593
Drafts outstanding	**58,160**	121,557
Dividends payable	**2,134,000**	5,180,000
Other liabilities	**3,675,090**	4,879,521
Total liabilities	**607,796,581**	630,915,048
MEMBERS' EQUITY		
Capital stock and participation certificates	**2,557,865**	2,616,445
Unallocated retained earnings	**102,841,706**	99,229,149
Accumulated other comprehensive income	**97,227**	100,437
Total members' equity	**105,496,798**	101,946,031
Total liabilities and members' equity	$ **713,293,379**	$ 732,861,079

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

HERITAGE LAND BANK, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
INTEREST INCOME				
Loans	**$ 9,351,691**	$ 8,423,318	**$ 19,321,519**	$ 16,661,144
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**5,167,789**	3,977,306	**10,323,438**	7,680,277
Advance conditional payments	**-**	98	**11**	200
Total interest expense	**5,167,789**	3,977,404	**10,323,449**	7,680,477
Net interest income	**4,183,902**	4,445,914	**8,998,070**	8,980,667
PROVISION FOR CREDIT LOSSES ON LOANS	**-**	-	**-**	-
Net interest income after provision for credit losses on loans	**4,183,902**	4,445,914	**8,998,070**	8,980,667
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**561,465**	900,912	**1,141,367**	2,051,965
Loan fees	**31,217**	34,711	**57,220**	70,799
Refunds from Farm Credit System Insurance Corporation	**210,225**	(1,950)	**248,144**	7,739
Financially related services income	**228**	231	**485**	467
Gain on sale of premises and equipment, net	**35,734**	-	**84,491**	-
Other noninterest income	**13,197**	15,358	**30,985**	30,716
Total noninterest income	**852,066**	949,262	**1,562,692**	2,161,686
NONINTEREST EXPENSES				
Salaries and employee benefits	**1,455,534**	1,840,753	**3,139,991**	3,678,824
Directors' expense	**81,127**	72,278	**164,023**	155,590
Purchased services	**373,132**	181,419	**590,141**	296,136
Travel	**126,999**	104,844	**195,805**	184,257
Occupancy and equipment	**392,897**	349,695	**765,492**	661,502
Communications	**39,451**	32,371	**68,888**	61,075
Advertising	**19,052**	150,533	**101,729**	264,619
Public and member relations	**146,398**	192,122	**264,499**	346,706
Supervisory and exam expense	**67,323**	61,736	**134,646**	123,472
Insurance Fund premiums	**173,962**	255,485	**342,167**	529,355
Loss on other property owned, net	**2,068**	-	**6,186**	-
Other noninterest expense	**65,866**	49,870	**132,530**	161,711
Total noninterest expenses	**2,943,809**	3,291,106	**5,906,097**	6,463,247
NET INCOME	**2,092,159**	2,104,070	**4,654,665**	4,679,106
Other comprehensive income:				
Change in postretirement benefit plans	**(1,605)**	(1,605)	**(3,210)**	(3,210)
COMPREHENSIVE INCOME	**$ 2,090,554**	$ 2,102,465	**$ 4,651,455**	$ 4,675,896

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

HERITAGE LAND BANK, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2022	$ 2,664,455	$ 97,778,405	$ 94,044	$ 100,536,904
Comprehensive income	-	4,679,106	(3,210)	4,675,896
Prior period patronage adjustment	-	-	-	-
Capital stock/participation certificates issued	108,605	-	-	108,605
Capital stock/participation certificates retired	(150,675)	-	-	(150,675)
Reversal of prior year patronage accrual	-	-	-	-
Cooperative dividends:				-
Cash	-	(3,417,459)	-	(3,417,459)
Balance at June 30, 2023	$ 2,622,385	$ 99,040,052	$ 90,834	$ 101,753,271
Balance at December 31, 2023	**$ 2,616,445**	**$ 99,229,149**	**$ 100,437**	**$ 101,946,031**
Comprehensive income	**-**	**4,654,665**	**(3,210)**	**4,651,455**
Prior period patronage adjustment	**-**	**(46)**	**-**	**(46)**
Capital stock/participation certificates issued	**74,470**	**-**	**-**	**74,470**
Capital stock/participation certificates retired	**(133,050)**	**-**	**-**	**(133,050)**
Reversal of prior year patronage accrual	**-**	**1,091,938**	**-**	**1,091,938**
Cooperative dividends:				**-**
Cash	**-**	**(2,134,000)**	**-**	**(2,134,000)**
Balance at June 30, 2024	**$ 2,557,865**	**$ 102,841,706**	**$ 97,227**	**$ 105,496,798**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Heritage Land Bank, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Anderson, Angelina, Cherokee, Collin, Dallas, Henderson, Hunt, Nacogdoches, Panola, Rockwall, Rusk, Sabine, San Augustine, Shelby, Smith, and Tarrant in the state of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

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

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

Recently Adopted Accounting Pronouncements

In December 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-09 - Income Taxes: Improvements to Income Tax Disclosures. The amendments in this standard require more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. The amendments in this standard require qualitative disclosure about specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate. The amendments are effective for annual periods beginning after December 15, 2025. The adoption of this guidance is not expected to have a material impact on the Association's financial condition, results of operations or cash flows.

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

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

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

On January 1, 2023, the Association adopted the Financial Accounting Standards Board (FASB) guidance entitled "Measurement of Credit Losses on Financial Instruments" and other subsequently issued accounting standards updates related to credit losses. This guidance replaced the current incurred loss impairment methodology with a single allowance framework that estimates the current expected credit losses (CECL) over the remaining contractual life for all financial assets measured at amortized cost and certain off-balance sheet credit exposures. This guidance is applied on a modified retrospective basis. This framework requires management to consider in its estimate of the allowance for credit losses (ACL) relevant historical events, current conditions, and reasonable and supportable forecasts that consider macroeconomic conditions. The adoption of this guidance was not material to the allowance for credit losses and retained earnings.

Also adopted effective January 1, 2023, was the updated guidance entitled "Financial Instruments – Credit Losses: Troubled Debt Restructurings and Vintage Disclosure." This guidance requires the creditor to determine whether a modification results in a new loan or a continuation of an existing loan, among other disclosures specific to modifications with borrowers that are experiencing financial difficulties. The update eliminated the accounting guidance for troubled debt restructurings by creditors. The update also requires disclosure of current period gross write-offs by year of origination for financing receivables and net investments in leases on a prospective basis.

Loans and Allowance for Credit Losses

Loans are generally carried at their principal amount outstanding adjusted for charge-offs, deferred loan fees or costs, and valuation adjustments relating to hedging activities. Loan origination fees and direct loan origination costs are netted and capitalized, and the net fee or cost is amortized over the average life of the related loan as an adjustment to interest income. Loan prepayment fees are reported in interest income. Interest on loans is accrued and credited to interest income based on the daily principal amount outstanding.

Nonaccrual Loans

Nonaccrual loans are loans for which there is reasonable doubt that all principal and interest will be collected according to the original contractual terms and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is modified or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

Consistent with prior practice, loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection), circumstances indicate that collection of principal and interest is in doubt, or legal action, including foreclosure or other forms of collateral conveyance, has been initiated to collect the outstanding principal and interest. At the time a loan is placed in nonaccrual status, accrued interest that is considered uncollectible is reversed (if accrued in the current year) or charged against the allowance for credit on loan losses (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

When loans are in nonaccrual status, interest payments received in cash are generally recognized as interest income if the collectability of the loan principal is fully expected and certain other criteria are met. Otherwise, payments received on nonaccrual loans are applied against the recorded investment in the loan asset. Nonaccrual loans are returned to accrual status if all contractual principal and interest is current, the borrower is fully expected to fulfill the contractual repayments terms and after remaining current as to principal and interest for a sustained period or have a recent repayment pattern demonstrating future repayment capacity to make on-time payments. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer should first be recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

Accrued Interest Receivable

The Association elected to continue classifying accrued interest on loans and investment securities in accrued interest receivable and not as part of loans or investments on the consolidated balance sheet. The Association also elected to not estimate an allowance on interest receivable balances because the nonaccrual policies in place provide for the accrual of interest to cease on a timely basis when all contractual amounts are not expected.

Loan Modifications to Borrowers Experiencing Financial Difficulty

Loan modifications may be granted to borrowers experiencing financial difficulty. Modifications can be in the form of one or a combination of principal forgiveness, interest rate reduction, other-than-insignificant payment delay, or a term extension. Covenant waivers and modifications of contingent acceleration clauses are not considered term extensions.

Collateral Dependent Loans

Collateral dependent loans are loans secured by collateral, including but not limited to agricultural real estate, crop inventory, equipment, and livestock. CECL requires the Association to measure the expected credit losses based on fair value of the collateral at the reporting date when the Association determines that foreclosure is probable. Additionally, CECL allows a fair value practical expedient as a measurement approach for loans when the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulties. Under the practical expedient measurement approach, the expected credit loss is based on the difference between the fair value of the collateral less estimated costs to sell and the amortized cost basis of the loan.

Allowance for Credit Losses

Beginning January 1, 2023, the allowance for credit losses (ACL) represents the estimated current expected credit losses over the remaining contractual life of financial assets measured at amortized cost and certain off-balance sheet credit exposures. The ACL takes into consideration relevant information about past events, current conditions, and reasonable and supportable macroeconomic forecasts of future conditions. The contractual term excludes expected extensions, renewals, and modifications unless the extension or renewal options are not unconditionally cancellable. The ACL comprises:

- the allowance for credit losses on loans (ACLL);
- the allowance for unfunded commitments, which is presented on the balance sheet in other liabilities; and
- the allowance for credit losses on investment securities, which covers held-to-maturity and available-for-sale securities and is recognized within each investment securities classification on the consolidated balance sheet.

Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio, considering macroeconomic conditions, forecasts, and other factors prevailing at the time, may result in significant changes in the ACL in those future periods.

Methodology for Allowance for Credit Losses on Loans

The ACLL represents management's estimate of credit losses over the remaining expected life of loans. Loans are evaluated on the amortized cost basis, including premiums, discounts, and fair value hedge accounting adjustments.

The Association employs a disciplined process and methodology to establish its ACLL that has two basic components: first, an asset-specific component involving individual loans that do not share risk characteristics with other loans and the measurement of expected credit losses for such individual loans; and second, a pooled component for estimated expected credit losses for pools of loans that share similar risk characteristics.

Asset-specific loans are generally collateral-dependent loans (including those loans for which foreclosure is probable) and nonaccrual loans. For an asset-specific loan, expected credit losses are measured as the difference between the amortized cost basis in the loan and the present value of expected future cash flows discounted at the loan's effective interest rate except that, for collateral-dependent loans, credit loss is measured as the difference between the amortized cost basis in the loan and the fair value of the underlying collateral. The fair value of the collateral is adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral. In accordance with the Association's appraisal policy, the fair value of collateral-dependent loans is based upon independent third-party appraisals or on collateral valuations prepared by in-house appraisers. When an updated appraisal or collateral valuation is received, management reassesses the need for adjustments to the loan's expected credit loss measurements and, where appropriate, records an adjustment. If the calculated expected credit loss is determined to be permanent, fixed, or non-recoverable, the credit loss portion of the loan will be charged off against the allowance for credit losses.

In estimating the components of the ACLL that share common risk characteristics, loans are evaluated collectively and segregated into loan pools considering the risk associated with the specific pool. Relevant risk characteristics include loan type, commodity, credit quality rating, delinquency category, or business segment, or a combination of these classes. The allowance is determined based on a quantitative calculation of the expected life-of-loan loss percentage for each loan category by considering the probability of default, based on the migration of loans from performing to loss by credit quality rating or delinquency buckets using historical life-of-loan analysis periods for loan types, and the severity of loss, based on the aggregate net lifetime losses incurred per loan pool.

The components of the ACLL also consider factors for each loan pool to adjust for differences between the historical period used to calculate historical default and loss severity rates and expected conditions over the remaining lives of the loans in the portfolio related to:

- lending policies and procedures;
- national, regional, and local economic business conditions and developments that affect the collectability of the portfolio, including the condition of various markets;
- the nature of the loan portfolio, including the terms of the loans;
- the experience, ability, and depth of the lending management and other relevant staff;
- the volume and severity of past due and adversely classified or graded loans and the volume of nonaccrual loans;
- the quality of the loan review and process;
- the value of underlying collateral for collateral-dependent loans;
- the existence and effect of any concentrations of credit and changes in the level of such concentrations; and
- the effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio.

The Association uses multiple scenarios over a reasonable and supportable forecast period of three years. Subsequent to the forecast period, the Association reverts to long-run historical loss experience beyond the three years on a straight-line basis over a two-year reversion period to inform the estimate of losses for the remaining contractual life of the loan portfolio.

The economic forecasts incorporate macroeconomic variables, including unemployment rates, real gross domestic product levels, and corporate bond spreads, as well as net farm income and agricultural commodity prices. Also considered are loan and borrower characteristics, such as internal risk ratings, delinquency status, collateral type, and the remaining term of the loan, adjusted for expected prepayments.

In addition to the quantitative calculation, the Association considers the imprecision inherent in the process and methodology, emerging risk assessments, and other subjective factors, which may lead to a management adjustment to the modeled ACLL results. Expected credit loss estimates also include consideration of expected cash recoveries on loans previously charged-off or expected recoveries on collateral dependent loans where recovery is expected through sale of the collateral. The economic forecasts are updated on a quarterly basis.

Prior to January 1, 2023, the allowance for credit losses on loans was maintained at a level considered adequate to provide for probable losses existing in and inherent in the loan portfolio. The allowance was based on a periodic evaluation of the loan portfolio in which numerous factors were considered, including economic conditions, collateral values, borrowers' financial conditions, loan portfolio composition, and prior loan loss experience. The allowance for credit losses on loans encompassed various judgments, evaluations, and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity would cause these various judgments, evaluations, and appraisals to change over time. Management considered a number of factors in determining and supporting the levels of the allowances for credit losses on loans, which included, but were not limited to, the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects, and weather-related influences.

Allowance for Credit Losses on Unfunded Commitments

The Association evaluates the need for an allowance for credit losses on unfunded commitments under CECL and, if required, an amount is recognized and included in other liabilities on the consolidated balance sheet. The amount of expected losses is determined by calculating a commitment usage factor over the contractual period for exposures that are not unconditionally cancellable by the Association and applying the loss factors used in the ACLL methodology to the results of the usage calculation. No allowance for credit losses are recorded for commitments that are unconditionally cancellable.

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

A summary of loans follows:

Loan Type	**June 30, 2024 Amount**	December 31, 2023 Amount
Production agriculture:		
Real estate mortgage	**$ 643,756,163**	$ 667,143,184
Production and intermediate-term	**11,579,029**	12,536,869
Rural residential real estate	**23,750,914**	24,750,615
Agribusiness:		
Processing and marketing	**8,405,934**	8,634,143
Farm-related business	**1,823,773**	1,380,371
Lease receivables	**254,381**	259,779
Total	**$ 689,570,194**	$ 714,704,961

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at June 30, 2024:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 12,508,760	$ 35,010,680	$ -	$ -	$ 12,508,760	$ 35,010,680
Agribusiness	5,772,780	1,284,670	-	-	5,772,780	1,284,670
Total	$ 18,281,540	$ 36,295,350	$ -	$ -	$ 18,281,540	$ 36,295,350

The Association is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. There were no ACPs as of June 30, 2024, and December 31, 2023, respectively.

Credit Quality

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

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

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

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

The following table presents credit quality indicators by loan type and the related amortized cost loan balance as of June 30, 2024:

	Term Loans Amortized Cost by Origination Year															
June 30, 2024		**2024**		**2023**		**2022**		**2021**		**2020**		**Prior**		**Revolving Loans Amortized Cost Basis**		**Total**
Real estate mortgage																
Acceptable	$	27,189,645	$	98,501,852	$	98,201,762	$	148,361,121	$	94,333,857	$	163,074,634	$	-	$	629,662,871
OAEM		-		-		71,628		860,005		1,041,765		234,594		-		2,207,992
Substandard/Doubtful		-		11,003,216		100,900		-		191,548		589,636		-		11,885,300
	$	27,189,645	$	109,505,068	$	98,374,290	$	149,221,126	$	95,567,170	$	163,898,864	$	-	$	643,756,163
Production and intermediate-term																
Acceptable	$	909,250	$	1,473,790	$	1,937,902	$	1,336,909	$	716,414	$	37,774	$	5,076,270	$	11,488,309
OAEM		-		46,309		-		-		-		-		-		46,309
Substandard/Doubtful		-		-		-		35,788		8,623		-		-		44,411
	$	909,250	$	1,520,099	$	1,937,902	$	1,372,697	$	725,037	$	37,774	$	5,076,270	$	11,579,029
Rural residential real estate																
Acceptable	$	213,430	$	1,491,973	$	1,247,937	$	4,608,199	$	3,609,389	$	12,037,518	$	-	$	23,208,446
OAEM		-		-		-		-		-		121,548		-		121,548
Substandard/Doubtful		-		-		-		-		84,860		336,060		-		420,920
	$	213,430	$	1,491,973	$	1,247,937	$	4,608,199	$	3,694,249	$	12,495,126	$	-	$	23,750,914
Agribusiness																
Acceptable	$	-	$	-	$	-	$	-	$	8,405,926	$	-	$	1,823,781	$	10,229,707
OAEM		-		-		-		-		-		-		-		-
Substandard/Doubtful		-		-		-		-		-		-		-		-
	$	-	$	-	$	-	$	-	$	8,405,926	$	-	$	1,823,781	$	10,229,707
Lease receivables																
Acceptable	$	-	$	-	$	-	$	-	$	254,381	$	-	$	-	$	254,381
OAEM		-		-		-		-		-		-		-		-
Substandard/Doubtful		-		-		-		-		-		-		-		-
	$	-	$	-	$	-	$	-	$	254,381	$	-	$	-	$	254,381
Total Loans																
Acceptable	$	28,312,325	$	101,467,615	$	101,387,601	$	154,306,229	$	107,319,967	$	175,149,926	$	6,900,051	$	674,843,714
OAEM		-		46,309		71,628		860,005		1,041,765		356,142		-		2,375,849
Substandard/Doubtful		-		11,003,216		100,900		35,788		285,031		925,696		-		12,350,631
	$	28,312,325	$	112,517,140	$	101,560,129	$	155,202,022	$	108,646,763	$	176,431,764	$	6,900,051	$	689,570,194

The following table presents credit quality indicators by loan type and the related amortized cost loan balance as of December 31, 2023:

	Term Loans Amortized Cost by Origination Year							
December 31, 2023	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
Real estate mortgage								
Acceptable	$ 105,411,035	$ 107,259,507	$ 156,186,016	$ 101,630,304	$ 41,388,773	$ 136,585,328	$ -	$ 648,460,963
OAEM	-	73,502	2,403,409	1,837,595	-	177,829	-	4,492,335
Substandard/Doubtful	10,972,650	105,533	1,626,982	989,282	-	495,439	-	14,189,886
	$ 116,383,685	$ 107,438,542	$ 160,216,407	$ 104,457,181	$ 41,388,773	$ 137,258,596	$ -	$ 667,143,184
Production and intermediate-term								
Acceptable	$ 1,619,020	$ 2,220,867	$ 1,560,069	$ 719,427	$ 138,687	$ 49,483	$ 5,016,758	$ 11,324,311
OAEM	208,675	-	-	-	-	-	512,965	721,640
Substandard/Doubtful	-	-	37,953	-	-	452,965	-	490,918
	$ 1,827,695	$ 2,220,867	$ 1,598,022	$ 719,427	$ 138,687	$ 502,448	$ 5,529,723	$ 12,536,869
Rural residential real estate								
Acceptable	$ 1,272,251	$ 1,445,142	$ 4,599,569	$ 3,799,440	$ 3,086,062	$ 10,455,156	$ -	$ 24,657,620
OAEM	-	-	-	89,568	-	-	-	89,568
Substandard/Doubtful	-	-	-	-	-	3,427	-	3,427
	$ 1,272,251	$ 1,445,142	$ 4,599,569	$ 3,889,008	$ 3,086,062	$ 10,458,583	$ -	$ 24,750,615
Agribusiness								
Acceptable	$ -	$ 30,166	$ -	$ 8,632,454	$ -	$ -	$ 1,351,405	$ 10,014,025
OAEM	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	489	-	489
	$ -	$ 30,166	$ -	$ 8,632,454	$ -	$ 489	$ 1,351,405	$ 10,014,514
Lease receivables								
Acceptable	$ -	$ -	$ -	$ 259,779	$ -	$ -	$ -	$ 259,779
OAEM	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-
	$ -	$ -	$ -	$ 259,779	$ -	$ -	$ -	$ 259,779
Total Loans								
Acceptable	$ 108,302,306	$ 110,955,682	$ 162,345,654	$ 115,041,404	$ 44,613,522	$ 147,089,967	$ 6,368,163	$ 694,716,698
OAEM	208,675	73,502	2,403,409	1,927,163	-	177,829	512,965	5,303,543
Substandard/Doubtful	10,972,650	105,533	1,664,935	989,282	-	952,320	-	14,684,720
	$ 119,483,631	$ 111,134,717	$ 166,413,998	$ 117,957,849	$ 44,613,522	$ 148,220,116	$ 6,881,128	$ 714,704,961

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

	June 30, 2024	December 31, 2023
Real estate mortgage		
Acceptable	**97.8** %	97.2 %
OAEM	**0.4**	0.7
Substandard/doubtful	**1.8**	2.1
	100.0	100.0
Production and intermediate-term		
Acceptable	**99.2**	90.3
OAEM	**0.4**	5.8
Substandard/doubtful	**0.4**	3.9
	100.0	100.0
Rural residential real estate		
Acceptable	**97.7**	99.6
OAEM	**0.5**	0.4
Substandard/doubtful	**1.8**	-
	100.0	100.0
Agribusiness		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Lease receivables		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Total loans		
Acceptable	**97.8**	97.2
OAEM	**0.4**	0.7
Substandard/doubtful	**1.8**	2.1
	100.0 %	100.0 %

Accrued interest receivable on loans of $4,496,199 and $3,613,887 at June 30, 2024 and December 31, 2023 have been excluded from the amortized cost of loans and reported separately in the Balance Sheet.

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

	June 30, 2024	December 31, 2023
Nonaccrual loans:		
Real estate mortgage	**$ 11,353,502**	$ 13,483,868
Production and intermediate-term	**44,411**	-
Rural residential real estate	**-**	3,427
Agribusiness	**-**	453,454
Total nonaccrual loans	**$ 11,397,913**	$ 13,940,749
Other property owned	**2,739,144**	-
Total nonperforming assets	**$ 14,137,057**	$ 13,940,749
Nonaccrual loans as a percentage of total loans	**1.65%**	1.95%
Nonperforming assets as a percentage of total loans and other property owned	**2.04%**	1.95%
Nonperforming assets as a percentage of capital	**13.40%**	13.67%

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

	June 30, 2024			**Interest Income Recognized**	
	Amortized Cost with Allowance	**Amortized Cost without Allowance**	**Total**	**For the Three Months Ended June 30, 2024**	**For the Six Months Ended June 30, 2024**
Nonaccrual loans:					
Real estate mortgage	**$ 11,003,216**	**$ 350,286**	**$ 11,353,502**	**$ 1,093**	**$ 1,093**
Production and intermediate-term	**35,788**	**8,623**	**44,411**	**17,040**	**24,056**
Rural residential real estate	**-**	**-**	**-**	**-**	**1,428**
Total nonaccrual loans	**$ 11,039,004**	**$ 358,909**	**$ 11,397,913**	**$ 18,133**	**$ 26,577**

	June 30, 2023			Interest Income Recognized	
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	For the Three Months Ended June 30, 2023	For the Six Months Ended June 30, 2023
Nonaccrual loans:					
Real estate mortgage	$ -	$ 86,263	$ 86,263	$ -	$ -
Rural residential real estate	4,855	-	4,855	-	-
Agribusiness	-	489	489	-	-
Total nonaccrual loans	$ 4,855	$ 86,752	$ 91,607	$ -	$ -

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

June 30, 2024	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 1,075,121**	**$ 11,086,694**	**$ 12,161,815**	**$ 631,594,348**	**$ 643,756,163**	**$ -**
Production and intermediate-term	**101,870**	**8,623**	**110,493**	**11,468,536**	**11,579,029**	**-**
Rural residential real estate	**-**	**-**	**-**	**23,750,914**	**23,750,914**	**-**
Processing and marketing	**-**	**-**	**-**	**8,405,934**	**8,405,934**	**-**
Farm-related business	**-**	**-**	**-**	**1,823,773**	**1,823,773**	**-**
Lease receivables	**-**	**-**	**-**	**254,381**	**254,381**	**-**
Total	**$ 1,176,991**	**$ 11,095,317**	**$ 12,272,308**	**$ 677,297,886**	**$ 689,570,194**	**$ -**

December 31, 2023	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 827,836	$ 230,426	$ 1,058,262	$ 666,084,922	$ 667,143,184	$ -
Production and intermediate-term	-	-	-	12,536,869	12,536,869	-
Rural residential real estate	441,863	-	441,863	24,308,752	24,750,615	-
Processing and marketing	-	489	489	8,633,654	8,634,143	-
Farm-related business	-	-	-	1,380,371	1,380,371	-
Lease receivables	-	-	-	259,779	259,779	-
Total	$ 1,269,699	$ 230,915	$ 1,500,614	$ 713,204,347	$ 714,704,961	$ -

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

Loan Modifications to Borrowers Experiencing Financial Difficulties

Upon adoption of the CECL accounting guidance, creditors are required to disclose specific modifications with borrowers that are experiencing financial difficulty. As of June 30, 2024, the Association had no modified loans with borrowers experiencing financial difficulties.

Allowance for Credit Losses

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

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

	Real Estate Mortgage	Production and Intermediate-Term	Rural Residential Real Estate	Agribusiness	Lease Receivables	Total
Allowance for credit losses on loans:						
Balance at March 31, 2024	$ 2,493,534	$ 1,666,806	$ 18,168	$ 1,577,641	$ -	$ 5,756,149
Charge-offs	-	-	-	-	-	-
Recoveries	-	7,609	-	545	-	8,154
Provision for credit losses on loans	-	-	-	-	-	-
Other	95,000	-	-	-	-	95,000
Balance at June 30, 2024	$ 2,588,534	$ 1,674,415	$ 18,168	$ 1,578,186	$ -	$ 5,859,303
Allowance for credit losses on unfunded commitments:						
Balance at March 31, 2024	$ 100,000	$ -	$ -	$ -	$ -	$ 100,000
Transfer from reserve for unfunded commitments	(95,000)	-	-	-	-	(95,000)
Balance at June 30, 2024	$ 5,000	$ -	$ -	$ -	$ -	$ 5,000
Allowance for credit losses on loans:						
Balance at December 31, 2023	$ 2,501,067	$ 1,662,626	$ 18,168	$ 1,577,135	$ -	$ 5,758,996
Charge-offs	(11,651)	-	-	-	-	(11,651)
Recoveries	4,118	11,789	-	1,051	-	16,958
Provision for credit losses	-	-	-	-	-	-
Other	95,000	-	-	-	-	95,000
Balance at June 30, 2024	$ 2,588,534	$ 1,674,415	$ 18,168	$ 1,578,186	$ -	$ 5,859,303
Allowance for credit losses on unfunded commitments:						
Balance at December 31, 2023	$ 100,000	$ -	$ -	$ -	$ -	$ 100,000
Transfer from reserve for unfunded commitments	(95,000)	-	-	-	-	(95,000)
Balance at June 30, 2024	$ 5,000	$ -	$ -	$ -	$ -	$ 5,000

	Real Estate Mortgage	Production and Intermediate-Term	Rural Residential Real Estate	Agribusiness	Lease Receievables	Total
Allowance for credit losses on loans:						
Balance at March 31, 2023	$ 2,490,467	$ 1,436,813	$ 18,168	$ 1,573,477	$ -	$ 5,518,925
Charge-offs	-	-	-	-	-	-
Recoveries	-	9,172	-	2,004	-	11,176
Provision for credit losses on loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
Balance at June 30, 2023	$ 2,490,467	$ 1,445,985	$ 18,168	$ 1,575,481	$ -	$ 5,530,101
Allowance for credit losses on unfunded commitments:						
Balance at March 31, 2023	$ 100,000	$ -	$ -	$ -	$ -	$ 100,000
Provision for unfunded commitments	-	-	-	-	-	-
Balance at June 30, 2023	$ 100,000	$ -	$ -	$ -	$ -	$ 100,000
Allowance for credit losses on loans:						
Balance at December 31, 2022	$ 2,477,067	$ 1,436,813	$ 18,168	$ 1,573,477	$ -	$ 5,505,525
Charge-offs	-	-	-	-	-	-
Recoveries	13,400	9,172	-	2,004	-	24,576
Provision for credit losses on loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
Balance at June 30, 2023	$ 2,490,467	$ 1,445,985	$ 18,168	$ 1,575,481	$ -	$ 5,530,101
Allowance for credit losses on unfunded commitments:						
Balance at December 31, 2022	$ 100,000	$ -	$ -	$ -	$ -	$ 100,000
Provision for unfunded commitments	-	-	-	-	-	-
Balance at June 30, 2023	$ 100,000	$ -	$ -	$ -	$ -	$ 100,000

Discussion of Changes in Allowance for Credit Losses

The ACL increased $5,307 to $5,864,303 at June 30, 2024, as compared to $5,858,996 at December 31, 2023. This is largely due to recoveries on loans slightly offset by charge-offs during the first two quarters of 2024.

NOTE 3 —LEASES:

The components of lease expense were as follows:

	For the Three Months Ended		For the Six Months Ended	
Classification	**June 30, 2024**	June 30, 2023	**June 30, 2024**	June 30, 2023
Operating lease cost	**$ 2,701**	$ 10,169	**$ 6,753**	$ 20,338
Net lease cost	**$ 2,701**	$ 10,169	**$ 6,753**	$ 20,338

Other information related to leases was as follows:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2024	June 30, 2023	**June 30, 2024**	June 30, 2023
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	**$ 2,701**	$ 10,169	**$ 6,753**	$ 20,338

Lease term and discount rate are as follows:

	June 30, 2024	December 31, 2023
Weighted average remaining lease term in years		
Operating leases	**1.25**	1.75
Weighted average discount rate		
Operating leases	**2.84%**	2.84%

Future minimum lease payments under non-cancellable leases as of June 30, 2024, were as follows:

		Operating Leases
2024		9,454
2025		-
2026		-
2027		-
2028		
Thereafter		-
Total	$	9,454

NOTE 4 — CAPITAL:

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

		June 30, 2024		December 31, 2023
Capital stock and participation certificates	**$**	**2,557,865**	$	2,616,445
Accumulated other comprehensive loss		**97,227**		100,437
Retained earnings		**102,841,706**		99,229,149
Total capital	**$**	**105,496,798**	$	101,946,031

Regulatory Capitalization Requirements

The Farm Credit Administration sets minimum regulatory capital requirements for banks and associations. The following sets forth the regulatory capital ratio requirements and ratios as of June 30, 2024:

Risk-adjusted:	Regulatory Minimums wih Buffer	As of June 30, 2024
Common equity tier 1 ratio	7.00%	13.00%
Tier 1 capital ratio	8.50%	13.00%
Total capital ratio	10.50%	13.83%
Permanent capital ratio	7.00%	13.11%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.00%	12.90%
UREE leverage ratio	1.50%	12.54%

The components of the Association's risk-weighted capital, based on 90-day average balances, were as follows at June 30, 2024:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 101,501,117	$ 101,501,117	$ 101,501,117	$ 101,501,117
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	2,582,281	2,582,281	2,582,281	2,582,281
Nonqualified allocated equities not subject to retirement	(9)	(9)	(9)	(9)
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	5,861,211	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(12,151,939)	(12,151,939)	(12,151,939)	(12,151,939)
	$ 91,931,450	$ 91,931,450	$ 97,792,661	$ 91,931,450
Denominator:				
Risk-adjusted assets excluding allowance	$ 719,155,310	$ 719,155,310	$ 719,155,310	$ 719,155,310
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(12,151,939)	(12,151,939)	(12,151,939)	(12,151,939)
Allowance for loan losses	-	-	-	(5,826,655)
	$ 707,003,371	$ 707,003,371	$ 707,003,371	$ 701,176,716

The components of the Association's non-risk-weighted capital, based on 90-day average balances, were as follows at June 30, 2024:

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	$ 101,501,117	$ 101,501,117
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	2,582,281	-
Nonqualified allocated equities not subject to retirement	(9)	(9)
Amount of allocated investments in other System institutions	(12,151,939)	(12,151,939)
	$ 91,931,450	$ 89,349,169
Denominator:		
Total Assets	$ 725,351,718	$ 725,351,718
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(12,849,198)	(12,849,198)
	$ 712,502,520	$ 712,502,520

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

	2024	2023
Accumulated other comprehensive income at January 1	**$ 100,437**	$ 94,044
Amortization of prior service credit included in salaries and employee benefits	**(3,210)**	(3,210)
Other comprehensive loss, net of tax	**(3,210)**	(3,210)
Accumulated other comprehensive income at June 30	**$ 97,227**	$ 90,834

NOTE 5 — INCOME TAXES:

Heritage Land Bank, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Heritage Land Bank, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Heritage Land Bank, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock, or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the Association and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized.

NOTE 6 — FAIR VALUE MEASUREMENTS:

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 14 in the 2023 Annual Report to Stockholders for a more complete description.

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

June 30, 2024	**Fair Value Measurement Using**			**Total Fair Value**
	Level 1	**Level 2**	**Level 3**	
Assets:				
Assets held in non-qualified benefits trusts	**$ 145,921**	**$ -**	**$ -**	**$ 145,921**
Total assets	**$ 145,921**	**$ -**	**$ -**	**$ 145,921**

December 31, 2023	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Assets held in non-qualified benefits trusts	$ 83,915	$ -	$ -	$ 83,915
Total assets	$ 83,915	$ -	$ -	$ 83,915

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

June 30, 2024	**Fair Value Measurement Using**			**Total Fair Value**
	Level 1	**Level 2**	**Level 3**	
Assets:				
Loans	**$ -**	**$ -**	**$8,578,724**	**$ 8,578,724**
Other property owned	**-**	**-**	**2,739,144**	**2,739,144**

December 31, 2023	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	$ -	$ -	$ 267,713	$ 267,713
Other property owned	-	-	-	-

Valuation Techniques

As more fully discussed in Note 14 to the 2023 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see the 2023 Annual Report to Stockholders.

Assets Held in Nonqualified Benefits Trusts

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

Loans Evaluated for Impairment

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

Other Property Owned

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

Cash

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

Loans

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

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

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

Commitments to Extend Credit

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

NOTE 7 — EMPLOYEE BENEFIT PLANS:

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

	Other Benefits	
Three months ended June 30:	**2024**	2023
Service cost	**$ 5,993**	$ 6,201
Interest cost	**18,435**	16,803
Amortization of prior service credits	**(1,605)**	(1,605)
Net periodic benefit cost	**$ 22,823**	$ 21,399

	Other Benefits	
Six months ended June 30:	**2024**	2023
Service cost	**$ 11,986**	$ 12,402
Interest cost	**36,870**	33,606
Amortization of prior service credits	**(3,210)**	(3,210)
Net periodic benefit cost	**$ 45,646**	$ 42,798

The Association's liability for the unfunded accumulated obligation for these benefits at June 30, 2024, was $1,389,203 and is included in other liabilities on the balance sheet.

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

The structure of the District's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The Association previously disclosed in its financial statements for the year ended December 31, 2023, that it expected to contribute $40,797 to the District's defined benefit pension plan in 2024. As of June 30, 2024, $21,168 of contributions have been made. The Association presently anticipates contributing an additional $21,167 to fund the defined benefit pension plan in 2024 for a total of $42,335

NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:

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

NOTE 9 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through August 9, 2024 which is the date the financial statements were issued. There are no other significant events requiring disclosure as of August 9, 2024.