Farm Credit Illinois, 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 Illinois, ACA and its subsidiaries, Farm Credit Illinois, FLCA and Farm Credit Illinois, 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:

Farm Credit Illinois, ACA
1100 Farm Credit Drive
Mahomet, IL 61853
(217) 590-2200
www.farmcreditIL.com

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.AgriBank.com
FinancialReporting@AgriBank.com

FORWARD-LOOKING INFORMATION

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

AGRICULTURAL AND ECONOMIC CONDITIONS

The September 12, 2024, United States Department of Agriculture (USDA) World Agricultural Supply and Demand Estimates forecasted per acre corn yields to achieve a record of 183.6 bushels per acre. The 2024 forecast for total corn harvest is 15.2 billion bushels, slightly smaller than last year due to a decline of nearly 4.0 million acres planted to corn in 2024 relative to 2023. With use forecasted at 15.0 billion bushels, this crop should continue to replenish corn stocks and prove bearish for prices. The USDA now expects the season average corn price to be $4.10 per bushel for the 2024/2025 crop year, down $0.55 from the previous year. Acres harvested and average yields are expected to increase for soybeans relative to 2023, resulting in a record haul of 4.6 billion bushels. Soybean production is expected to exceed use by about 200.0 million bushels. As a result, ending stocks are projected at 550.0 million bushels and the USDA's projected soybean season average price now stands at $10.80 per bushel.

Harvest has begun in earnest in the southern 60 counties of Illinois. The USDA October 7, 2024, crop report suggests that harvest in Illinois is ahead of pace relative to the most recent five-year averages with 32.0% of corn acres and 42.0% of soybean acres harvested. Typically, just 28.0% of soybean acres are harvested at this stage. With harvest underway, farmers are gaining greater clarity regarding yields. The USDA expects Illinois farms to contribute positively to the record national average by setting an Illinois record of 225.0 bushels per acre. Likewise, soybeans would set a record at 65.0 bushels per acre. Record yields will help temper the financial pressure on farm incomes exerted by lower commodity grain prices.

As 2024 crop outcomes become more certain, farmers can begin planning for the 2025/2026 crop. University of Illinois farm economists released initial budgets for 2025 plantings that includes another year of negative farmer returns to corn and soybean production across all regions and soil productivity types. The budgets assume cost reductions in all direct cost categories including fertilizer and seed. Land costs are budgeted at average cash rents and are expected to decline in 2025 relative to the past two years by about $20 per acre. Producers who use debt to finance land acquisition may realize lower land costs if interest rates continue to decline into 2025.

The continued erosion in margins and relatively higher interest rates have yet to slow a steady increase in farmland values. According to the Farm Credit Illinois appraisal team's 2024 study, values throughout central and southern Illinois increased 7.5% on average from 2023. Among benchmark farms, 18 of 22 farms realized an increased value. Although a decline in interest rates may provide some offset, the durability of these increases remain in doubt given declining net farm incomes and lower forecasted cash rental rates. Long-term forecasts from the USDA suggest that net farm income is likely to revert to the historical mean from the recent years of robust net farm income. This year real net farm income is expected to decline by 7.0% from 2023, yet the expectation slightly exceeds the twenty-year average. The USDA anticipates a continued slow decline for the next three years. The interest rate environment has become more favorable to asset values and the Federal Reserve largely anticipates lowering interest rates through 2025. Lower interest rates should provide support to asset values.

The prices received throughout the beef cattle sector remain elevated relative to historical averages. Illinois cow-calf operations can expect to realize feeder cattle prices that are higher than 2023. In May 2024, feeder cattle futures reached an all-time high of over $264 per hundredweight. The national beef inventory continues to trend downward about eleven years into a typically fifteen-year cycle. Despite the decline in production, higher retail prices for beef have not dampened demand. Generally, all livestock sectors are enjoying a period of relative profitability. Hog prices and dairy prices have rebounded from historic lows. Many pork producers are earning positive returns to production for the first time in nearly two years. Prices received by milk producers have steadily increased in 2024 and lower feed cost prices have provided room for positive margins.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $5.7 billion at September 30, 2024, a decrease of $340.3 million from December 31, 2023. The Association participates in asset pool programs to effectively leverage District capital and other cooperative benefits, as well as manage concentration risk and portfolio growth. In the past, we sold AgriBank participation interests primarily in real estate loans as part of pool programs. On August 1, 2024, we purchased loans totaling $217.1 million from these prior asset pool programs back from AgriBank. Additionally, on the same day, we sold AgriBank participation interests and unfunded commitments totaling $1.3 billion, with funded balances of $1.0 billion, representing a participation interest across most of our loan portfolio.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2023. Adversely classified loans increased to 2.8% of the portfolio at September 30, 2024, from 1.8% 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, $390.6 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	**$ 29,885**	$ 17,328
Accruing loans 90 days or more past due	**2,120**	321
Total nonperforming loans	**32,005**	17,649
Other property owned	**1,314**	58
Total nonperforming assets	**$ 33,319**	$ 17,707
Total nonperforming loans as a percentage of total loans	**0.6%**	0.3%
Nonaccrual loans as a percentage of total loans	**0.5%**	0.3%
Current nonaccrual loans as a percentage of total nonaccrual loans	**81.8%**	36.9%
Total delinquencies as a percentage of total loans[1]	**0.4%**	0.3%

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

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

The increase in nonaccrual loans was primarily due to certain agribusiness loans that transferred to nonaccrual status during 2024. Nonaccrual loans remained at an acceptable level at September 30, 2024, and December 31, 2023.

The increase in accruing loans 90 days or more past due was primarily due to the increase in the number of days past due on one loan fully guaranteed by the United States Department of Agriculture. Our accounting policy requires loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, accruing loans 90 days or more past due were eligible to remain in accruing status.

The increase in other property owned was primarily due to one production and intermediate-term relationship in our capital markets portfolio that transferred from nonaccrual to other property owned during 2024.

Allowance for Credit Losses on Loans

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

Allowance for Credit Losses on Loans Coverage Ratios

As of:	**September 30, 2024**	December 31, 2023
Allowance for credit losses on loans as a percentage of:		
Loans	**0.3%**	0.2%
Nonaccrual loans	**52.3%**	59.2%
Total nonperforming loans	**48.8%**	58.1%

Total allowance for credit losses on loans was $15.6 million at September 30, 2024, and $10.3 million at December 31, 2023. The increase from December 31, 2023, was primarily related to higher asset-specific allowance for credit loss component of certain agribusiness loans within the capital markets portfolio during 2024.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the nine months ended September 30,	**2024**	2023
Net income	**$ 78,128**	$ 76,431
Return on average assets	**1.5%**	1.7%
Return on average members' equity	**8.2%**	8.5%

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	**$ 123,312**	$ 110,936	**$ 12,376**
Provision for credit losses	**9,355**	9,132	**(223)**
Non-interest income	**35,768**	39,621	**(3,853)**
Non-interest expense	**71,597**	64,994	**(6,603)**
Net income	**$ 78,128**	$ 76,431	**$ 1,697**

Net Interest Income

Changes in Net Interest Income

(in thousands) For the nine months ended September 30,	**2024 vs 2023**
Changes in volume	**$ 14,816**
Changes in interest rates	**(1,988)**
Changes in nonaccrual interest income and other	**(452)**
Net change	**$ 12,376**

Non-Interest Expense

The change in non-interest expense was primarily due to an increase in salaries and employee benefits, depreciation and maintenance expense and purchased services, partially offset by Farm Credit System insurance expense.

Salaries and Employee Benefits: The increase in salaries and employee benefits was due to higher employee count.

Depreciation and Maintenance: The increase in depreciation and maintenance was due to increasing software and license costs.

Purchased Services: The increase in purchased services was primarily due to higher core service fees from our technology provider and consulting costs associated with various projects underway to modernize business systems and processes.

Other Losses: The increase in other losses is primarily due to a credit adjustment to fair value on the August 1, 2024, asset pool sale of participation interests and unfunded commitments to AgriBank.

Farm Credit System Insurance: The Farm Credit System insurance expense decreased in 2024 primarily due to a decrease in the Farm Credit System Insurance Fund (Insurance Fund) premium rate on Systemwide adjusted insured debt. The premium rate, which is primarily impacted by System growth, was 10 basis points for the nine months ended September 30, 2024, compared to 18 basis points for the same period in 2023. The Farm Credit System Insurance Corporation Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time. Refer to Note 1 in our 2023 Annual Report for additional information on the Insurance Fund.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable is scheduled to mature on July 31, 2026. We intend to renegotiate the note payable no later than the maturity date. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. However, we maintain some exposure to interest rates, primarily from loans to customers which may not have a component of our line of credit with an exact repricing attribute. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from unallocated surplus. At September 30, 2024, gross loans are funded 91.3% by the direct note and 8.7% by unallocated surplus.

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 $78.4 million from December 31, 2023, primarily due to net income for the period.

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 7 in our 2023 Annual Report for a more complete description of these ratios.

Regulatory Capital Requirements and Ratios

As of:	**September 30, 2024**	December 31, 2023	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**15.7%**	16.0%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**15.7%**	16.0%	6.0%	2.5%	8.5%
Total capital ratio	**16.0%**	16.1%	8.0%	2.5%	10.5%
Permanent capital ratio	**15.8%**	16.0%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**15.9%**	16.6%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**15.7%**	16.5%	1.5%	N/A	1.5%

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

CERTIFICATION

The undersigned have reviewed the September 30, 2024, Quarterly Report of Farm Credit Illinois, 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.

Steve Hettinger
Chairperson of the Board
Farm Credit Illinois, ACA

Aaron S. Johnson
President and Chief Executive Officer
Farm Credit Illinois, ACA

Kelly D. Hunt
Executive Vice President and Chief Financial Officer
Farm Credit Illinois, ACA

November 6, 2024

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Illinois, ACA

(in thousands)

As of:		September 30, 2024		December 31, 2023
		(Unaudited)		
ASSETS				
Loans	**$**	**5,698,863**	$	6,039,209
Allowance for credit losses on loans		**15,621**		10,254
Net loans		**5,683,242**		6,028,955
Investment in AgriBank, FCB		**286,124**		209,478
Investment securities		**382,917**		349,085
Accrued interest receivable		**101,744**		87,213
Other assets		**120,086**		110,373
Total assets	**$**	**6,574,113**	$	6,785,104
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**5,201,478**	$	5,445,487
Accrued interest payable		**55,072**		50,162
Patronage distribution payable		**--**		43,687
Other liabilities		**18,448**		25,016
Total liabilities		**5,274,998**		5,564,352
Contingencies and commitments (Note 4)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**8,259**		8,089
Unallocated surplus		**1,291,938**		1,213,812
Accumulated other comprehensive loss		**(1,082)**		(1,149)
Total members' equity		**1,299,115**		1,220,752
Total liabilities and members' equity	**$**	**6,574,113**	$	6,785,104

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Farm Credit Illinois, ACA
(in thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
For the period ended September 30,	**2024**	2023	**2024**	2023
Interest income	**$ 93,968**	$ 82,538	**$ 288,648**	$ 228,551
Interest expense	**55,072**	43,905	**165,336**	117,615
Net interest income	**38,896**	38,633	**123,312**	110,936
Provision for credit losses	**3,399**	1,278	**9,355**	9,132
Net interest income after provision for credit losses	**35,497**	37,355	**113,957**	101,804
Non-interest income				
Patronage income	**8,555**	9,570	**21,274**	26,877
Financially related services income	**2,571**	2,561	**7,374**	7,645
Fee income	**1,771**	1,353	**4,914**	4,100
Other non-interest income	**210**	287	**2,206**	999
Total non-interest income	**13,107**	13,771	**35,768**	39,621
Non-interest expense				
Salaries and employee benefits	**12,337**	11,202	**35,956**	33,961
Other operating expense	**11,081**	10,806	**32,761**	31,014
Other non-interest expense	**2,848**	--	**2,880**	19
Total non-interest expense	**26,266**	22,008	**71,597**	64,994
Income before income taxes	**22,338**	29,118	**78,128**	76,431
Provision for (benefit from) income taxes	**--**	--	**--**	--
Net income	**$ 22,338**	$ 29,118	**$ 78,128**	$ 76,431
Other comprehensive income				
Employee benefit plans activity	**$ 46**	$ 58	**$ 67**	$ 169
Total other comprehensive income	**46**	58	**67**	169
Comprehensive income	**$ 22,384**	$ 29,176	**$ 78,195**	$ 76,600

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Illinois, ACA

(in thousands)

(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2022	$ 7,927	$ 1,150,555	$ (1,544)	$ 1,156,938
Cumulative effect of change in accounting principle	--	1,890	--	1,890
Net income	--	76,431	--	76,431
Other comprehensive income	--	--	169	169
Unallocated surplus designated for patronage distributions	--	73	--	73
Capital stock and participation certificates issued	410	--	--	410
Capital stock and participation certificates retired	(299)	--	--	(299)
Balance at September 30, 2023	$ 8,038	$ 1,228,949	$ (1,375)	$ 1,235,612
Balance at December 31, 2023	$ 8,089	$ 1,213,812	$ (1,149)	$ 1,220,752
Net income	**--**	**78,128**	**--**	**78,128**
Other comprehensive income	**--**	**--**	**67**	**67**
Unallocated surplus designated for patronage distributions	**--**	**(2)**	**--**	**(2)**
Capital stock and participation certificates issued	**467**	**--**	**--**	**467**
Capital stock and participation certificates retired	**(297)**	**--**	**--**	**(297)**
Balance at September 30, 2024	**$ 8,259**	**$ 1,291,938**	**$ (1,082)**	**$ 1,299,115**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation

The Consolidated Financial Statements present the consolidated financial results of Farm Credit Illinois, ACA and its subsidiaries Farm Credit Illinois, FLCA and Farm Credit Illinois, 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 $96.4 million at September 30, 2024, and $84.6 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	**$ 3,030,910**	**53.2%**	$ 3,120,621	51.7%
Production and intermediate-term	**766,967**	**13.5%**	871,733	14.4%
Agribusiness	**1,257,006**	**22.1%**	1,392,493	23.1%
Other	**643,980**	**11.2%**	654,362	10.8%
Total	**$ 5,698,863**	**100.0%**	$ 6,039,209	100.0%

The other category is composed of rural infrastructure and agricultural export finance related loans and certain assets characterized as mission related investments.

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	**$ 5,452**	**$ 4,544**	**$ 9,996**	**$ 3,020,914**	**$ 3,030,910**	**$ --**
Production and intermediate-term	**579**	**212**	**791**	**766,176**	**766,967**	**--**
Agribusiness	**--**	**693**	**693**	**1,256,313**	**1,257,006**	**--**
Other	**8,740**	**2,120**	**10,860**	**633,120**	**643,980**	**2,120**
Total	**$ 14,771**	**$ 7,569**	**$ 22,340**	**$ 5,676,523**	**$ 5,698,863**	**$ 2,120**

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	$ 2,223	$ 8,558	$ 10,781	$ 3,109,840	$ 3,120,621	$ --
Production and intermediate-term	291	1,889	2,180	869,553	871,733	321
Agribusiness	1,547	3	1,550	1,390,943	1,392,493	--
Other	3,234	--	3,234	651,128	654,362	--
Total	$ 7,295	$ 10,450	$ 17,745	$ 6,021,464	$ 6,039,209	$ 321

Nonaccrual Loans

Nonaccrual Loans Information

(in thousands)	**As of September 30, 2024** Amortized Cost	Amortized Cost Without Allowance	**For the Nine Months Ended September 30, 2024** Interest Income (Reversed) Recognized
Nonaccrual loans:			
Real estate mortgage	**$ 5,592**	**$ 4,769**	**$ 27**
Production and intermediate-term	**1,565**	**1,319**	**14**
Agribusiness	**21,386**	**7,868**	**(268)**
Other	**1,342**	**211**	**--**
Total	**$ 29,885**	**$ 14,167**	**$ (227)**

	As of December 31, 2023 Amortized Cost	Amortized Cost Without Allowance	For the Nine Months Ended September 30, 2023 Interest Income Recognized
Nonaccrual loans:			
Real estate mortgage	$ 11,008	$ 5,526	$ 210
Production and intermediate-term	2,635	1,474	15
Agribusiness	2,576	--	--
Other	1,109	263	--
Total	$ 17,328	$ 7,263	$ 225

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

Loan Modifications Granted to Borrowers Experiencing Financial Difficulty

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

Loan Modifications at Amortized Cost[1]

(dollars in thousands) **For the nine months ended September 30, 2024**	Interest Rate Reduction	Term Extension	Combination - Interest Rate Reduction and Term Extension	Combination - Term Extension and Payment Deferral	Total	Percentage of Total Loans
Production and intermediate-term	**$ 3,055**	**$ --**	**$ 558**	**$ 3,563**	**$ 7,176**	**0.1%**
Agribusiness	**--**	**9,470**	**--**	**--**	**9,470**	**0.2%**
Total	**$ 3,055**	**$ 9,470**	**$ 558**	**$ 3,563**	**$ 16,646**	**0.3%**
Loan modifications granted as a percentage of total loans	**0.0%**	**0.2%**	**0.0%**	**0.1%**	**0.3%**	

For the nine months ended September 30, 2023	Interest Rate Reduction	Term Extension	Combination - Interest Rate Reduction and Term Extension	Combination - Term Extension and Payment Deferral	Total	Percentage of Total Loans
Production and intermediate-term	$ --	$ 2,100	$ --	$ 12,703	$ 14,803	0.3%
Agribusiness	--	1,195	--	--	1,195	0.0%
Total	$ --	$ 3,295	$ --	$ 12,703	$ 15,998	0.3%
Loan modifications granted as a percentage of total loans	--	0.1%	--	0.2%	0.3%	

[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)	Weighted Average Payment Deferral (months)	Principal Forgiveness ($ in thousands)
Production and intermediate-term				
Interest rate reduction	**0.3%**			
Combination - interest rate reduction and term extension	**1.6%**	**47**		
Combination - term extension and payment deferral		**10**	**10**	
Agribusiness				
Term extension		**40**		
Principal forgiveness				**7,132**

For the nine months ended September 30, 2023	Weighted Average Interest Rate Reduction (%)	Weighted Average Term Extension (months)	Weighted Average Payment Deferral (months)	Principal Forgiveness ($ in thousands)
Production and intermediate-term				
Term extension		5		
Combination - term extension and payment deferral		8	8	
Agribusiness				
Term extension		30		

We had loans to borrowers experiencing financial difficulty with payment deferral in the real estate mortgage loan category of $825 thousand that defaulted during the nine months ended September 30, 2024, in which the modifications were within the twelve months preceding the default. There were no loans to borrowers experiencing financial difficulty that defaulted during the nine months ended September 30, 2023, in which the modifications were within twelve months preceding the default.

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

Payment Status of Loan Modifications[1]

(in thousands) **As of September 30, 2024**	Not Past Due or Less Than 30 Days Past Due	90 Days or More Past Due	Total
Real estate mortgage	**$ --**	**$ 4,476**	**$ 4,476**
Production and intermediate-term	**11,786**	**97**	**11,883**
Agribusiness	**9,470**	**--**	**9,470**
Total	**$ 21,256**	**$ 4,573**	**$ 25,829**

As of September 30, 2023	Not Past Due or Less Than 30 Days Past Due	90 Days or More Past Due	Total
Real estate mortgage	$ 885	$ --	$ 885
Production and intermediate-term	14,703	--	14,703
Agribusiness	1,195	--	1,195
Total	$ 16,783	$ --	$ 16,783

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

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

Additional commitments were $2.1 million at September 30, 2024, and $4.3 million at December 31, 2023, to lend to borrowers experiencing financial difficulty whose loans were modified during the nine months ended September 30, 2024, and during the year ended December 31, 2023, respectively.

Allowance for Credit Losses

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

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

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

Changes in Allowance for Credit Losses

(in thousands) Nine months ended September 30,	**2024**	2023
Allowance for Credit Losses on Loans		
Balance at beginning of period	**$ 10,254**	$ 9,040
Cumulative effect of change in accounting principle	**--**	(3,357)
Provision for credit losses on loans	**9,221**	9,009
Loan recoveries	**3**	482
Loan charge-offs	**(3,857)**	(5,068)
Balance at end of period	**$ 15,621**	$ 10,106
Allowance for Credit Losses on Unfunded Commitments		
Balance at beginning of period	**$ 2,127**	$ --
Cumulative effect of change in accounting principle	**--**	1,468
Provision for credit losses on unfunded commitments	**134**	123
Balance at end of period	**$ 2,261**	$ 1,591
Total allowance for credit losses	**$ 17,882**	$ 11,697

The change in the allowance for credit losses on loans from the beginning of the period was primarily driven by higher asset-specific reserves established on nonaccrual loans within our capital markets portfolio during 2024. As the credit quality of those loans decreased, specific reserves were either established or increased. This increase to the allowance is offset by the charge-off of a limited number of loans within the capital markets portfolio.

NOTE 3: INVESTMENT SECURITIES

We held investment securities of $382.9 million at September 30, 2024, and $349.1 million at December 31, 2023. Our investment securities consisted of pools of loans guaranteed by the Small Business Administration (SBA). All of our investment securities were fully guaranteed by the SBA at September 30, 2024, and December 31, 2023. Premiums paid to purchase the investments are not guaranteed and are amortized as a reduction of interest income.

The investment securities have been classified as held-to-maturity. There was no allowance for credit losses on investment securities at September 30, 2024, or December 31, 2023.

Our investments are all asset-backed securities (ABS) consisting of either mortgage-backed securities (MBS), which are generally longer-term investments, or non-mortgage related ABS, which are generally shorter-term investments. MBS generally have contractual maturities greater than 10 years.

Accrued interest receivable on investment securities is presented in “Accrued interest receivable” in the Consolidated Statements of Condition and was $5.3 million at September 30, 2024, and $2.7 million at December 31, 2023.

Investment income is recorded in “Interest income” in the Consolidated Statements of Comprehensive Income and totaled $18.1 million and $9.8 million for the nine months ended September 30, 2024, and 2023, respectively.

Contractual Maturities of Investment Securities

(in thousands)

As of September 30, 2024	Amortized Cost
One to five years	$ **9,841**
Five to ten years	**171,804**
More than ten years	**201,272**
Total	$ **382,917**

Actual maturity of the held-to-maturity investment securities may be less than contractual maturity due to prepayments.

NOTE 4: CONTINGENCIES AND COMMITMENTS

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

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

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

NOTE 5: 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	$ **--**	$ **--**	$ **8,879**	$ **8,879**
Other property owned	**--**	**--**	**1,367**	**1,367**

As of December 31, 2023	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Loans	$ --	$ --	$ 6,969	$ 6,969
Other property owned	--	--	60	60

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 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through November 6, 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.