Quarterly Report

The Third Quarter Ended
September 30, 2023

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Report of Management

The consolidated financial statements of *AgTexas Farm Credit Services* ("**Association**") are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. Other financial information included in the quarterly report is consistent with that in the consolidated financial statements and there are no significant changes in the Association's internal controls or in other factors that could significantly affect such controls during the quarter.

The undersigned certify that this quarterly report has been reviewed and 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 his knowledge and belief.

Kayla Robinson
Chief Executive Officer
October 25, 2023

Reggie Underwood
Chairman, Board of Directors
October 25, 2023

Jeff Fairchild
Chief Financial Officer
October 25, 2023

Management's Discussion and Analysis
(Dollars in thousands, except as noted)

The third quarter consolidated financial statements of AgTexas Farm Credit Services, including its wholly-owned subsidiaries AgTexas, PCA and AgTexas, FLCA (collectively referred to herein as the "**Association**"), is unaudited, but contains all adjustments necessary for a fair presentation of the interim financial condition and results of operations. The statements are prepared in conformity with generally accepted accounting principles and prevailing practices within the banking industry. In preparing these consolidated statements and meeting its responsibility for reliable financial information, management depends upon the Association's accounting and internal control systems which have been designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized and recorded.

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 following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of the Association for the three and nine months ended September 30, 2023, and should be read in conjunction with the accompanying *consolidated financial statements* ("**CFS**") and the *Association's 2022 Annual Report to Stockholders* ("**2022 Annual Report**"). Management prepared the accompanying CFS under the oversight of the Association's Audit Committee.

Significant Events.

The Association distributed patronage of approximately $30 million in cash in the first quarter of 2023. This represented the 2022 patronage declared by the Association.

Loan Portfolio.

Total loans outstanding at September 30, 2023, including nonaccrual loans, were $2,862,090 compared to $2,746,971 at December 31, 2022, reflecting an increase of 4.2 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.8 percent at September 30, 2023, compared to 0.7 percent at December 31, 2022.

The Association recorded $1,044 in recoveries and $1,056 in charge-offs for the nine months ended September 30, 2023, and $5 in recoveries and $0 in charge-offs for the same period in 2022. The Association's allowance for credit losses, which consists of the allowance for loan losses and the reserve for unfunded credit commitments, was 0.42 percent and 0.35 percent of total loans outstanding as of September 30, 2023, and December 31, 2022, respectively.

The financial performance of the Association may be significantly impacted by the quality of loans within the loan portfolio. Internal policies and procedures, as well as third party credit reviews and examinations help to ensure asset quality is properly reflected. Additional detail on credit quality is illustrated in the following table.

	September 30, 2023	September 30, 2022	December 31, 2022
Acceptable	95.2%	95.4%	97.4%
OAEM	3.0%	3.4%	1.4%
Substandard/doubtful	1.8%	1.2%	1.2%
	100.0%	100.0%	100.0%

Changes in the Association's loan portfolio from December 31, 2022 to September 30, 2023 follow:

Loan Type	September 30, 2023 Amount	%	December 31, 2022 Amount	%
Real estate mortgage	$ 1,440,106	50.3%	$ 1,477,665	53.8%
Production and intermediate term	1,075,175	37.6%	923,754	33.6%
Agribusiness:				
Loans to cooperatives	8,503	0.3%	13,049	0.5%
Processing and marketing	189,957	6.6%	195,084	7.1%
Farm-related business	49,476	1.8%	53,043	2.0%
Communication	20,511	0.7%	16,816	0.6%
Energy	6,846	0.2%	4,170	0.2%
Water and waste water	16,039	0.6%	6,787	0.2%
Rural residential real estate	5,992	0.2%	6,302	0.2%
Agricultural export finance	12,397	0.4%	11,365	0.4%
Lease receivables	9,165	0.3%	8,635	0.3%
Mission-related investments	27,923	1.0%	30,301	1.1%
Total	$ 2,862,090	100.0%	$ 2,746,971	100.0%

Management purchases loans and extends credit in accordance with mission-related investment programs, including the Rural America Bond Pilot (**RAB**) Program, approved by FCA. This activity allows the Association to provide credit that furthers the System's mission to serve rural America. These transactions generally involve government guarantees or taxing authority and purchase premiums and discounts.

Effective January 1, 2019, new FCA investment regulations provided authorization for the Association to invest in *Small Business Administration* ("**SBA**") pool securities. As a part of the conditions of the authorization, the investments are required to be 100% unconditionally guaranteed by the federal government or its agencies. For more information see Note 2 in the "Notes to Unaudited Consolidated Financial Statements."

Risk Exposure. High risk assets include impaired loans and other property owned. Impaired loans are comprised of nonaccrual and past due ≥ 90 days and still accruing interest. The following table illustrates the Association's components and trends of high-risk assets. The balances at September 30, 2023 present the amortized cost while the balances at December 31, 2022 reflect the amortized cost plus accrued interest.

	September 30, 2023 Amount	%	December 31, 2022 Amount	%
Nonaccrual	$ 22,183	86.6%	$ 18,777	68.4%
90 days past due and still accruing interest	3,437	13.4%	8,669	31.6%
Other property owned, net	-	0.0%	-	0.0%
Total	$ 25,620	100.0%	$ 27,446	100.0%

Results of Operations. Changes in the Association's results of operations for the three and nine months ended September 30, 2023 and September 30, 2022 follow:

	For the three months ended		For the nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Interest income	$ 49,129	$ 32,744	$ 136,804	$ 85,073
Interest expense	(29,414)	(15,822)	(80,324)	(36,152)
(Provision for) reversal of loan losses	(720)	(1,631)	(3,036)	(3,518)
Net interest margin	18,995	15,291	53,444	45,403
Noninterest income	4,393	9,994	22,899	28,399
Noninterest expense	(10,875)	(11,189)	(33,902)	(32,112)
Net income	$ 12,513	$ 14,096	$ 42,441	$ 41,690

Net interest margin (interest income less interest expense) is the principal source of earnings and results from relative volumes of interest-earning assets and interest-bearing liabilities, yields on interest-earning assets, and rates on interest-bearing liabilities. The increase in interest income and expense are due to increased interest rates. Noninterest income decrease is due to a decrease in patronage income. Noninterest expense increase is due to increases in salaries, purchased service and travel.

The effects of changes in average volumes, yields, and rates on interest margin follow:

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	For the nine months ended September 30, 2023		For the nine months ended September 30, 2022	
	Average Balance	Interest	Average Balance	Interest
Total loans and investments	$ 2,931,061	$ 136,804	$ 2,788,982	$ 85,073
Interest-bearing liabilities	2,598,761	80,324	2,448,638	36,152
Impact of capital	$ 332,300		$ 340,344	
Net interest income		$ 56,480		$ 48,921

	2023 Average Yield	2022 Average Yield
Yield on loans and investments	6.24%	4.08%
Cost of interest-bearing	4.13%	1.98%
Interest rate spread	2.11%	2.10%
Interest rate margin	2.58%	2.35%

	Nine months ended September 30: 2023 vs. 2022 Increase (decrease) due to		
	Volume	Rate	Total
Interest income	$ 4,336	$ 47,395	$ 51,731
Interest expense	2,223	41,949	44,172
Net interest income	$ 2,112	$ 5,447	$ 7,559

The Association's return on average assets was 1.59% and 1.92% for the quarters ended September 30, 2023 and 2022, respectively, and 1.86% and 1.93% for the nine months ended September 30, 2023 and 2022, respectively. The decrease in return on average assets for the three months is due to decreased net income related to decreased patronage income, coupled with an increase in average total assets. The decrease for the nine months ended September 30, 2023 is due to a larger increase in average total assets relative to the increase in net income related to decreased patronage income. The Association's return on average equity was 11.38% and 13.24% for the quarters ended September 30, 2023 and 2022, respectively, and 13.47% and 13.53% for the nine months ended September 30, 2023 and 2022, respectively. The return on average equity is lower due to lower net income within the quarter.

Liquidity and Funding Sources. *Interest rate risk* ("**IRR**") inherent in the loan portfolio is substantially mitigated through the funding relationship with FCBT. FCBT manages IRR through direct loan pricing and asset/liability management. The Association's primary source of liquidity and funding is a direct note payable to FCBT. The following schedule summarizes the Association's borrowings:

	September 30, 2023	December 31, 2022
Note payable to FCBT	$ 2,674,842	$ 2,495,119
Accrued interest on note payable	9,962	7,539
Total	$ 2,684,804	$ 2,502,658

The Association operates under a *general financing agreement* ("**GFA**") with FCBT. The current GFA is effective through September 30, 2026. The outstanding balance of $2,674,842 as of September 30, 2023, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 4.55 percent at September 30, 2023. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to FCBT and is governed by the GFA. The increase in note payable to FCBT since December 31, 2022, is due to the Association's payment of patronage and increased loan volume. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $342,549 at September 30, 2023. The maximum amount the Association may borrow from FCBT as of September 30, 2023, was $3,045,398 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, unless sooner terminated by FCBT upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by FCBT, upon giving FCBT 30 calendar days' prior written notice, or in all other circumstances, upon giving FCBT 120 days' prior written notice.

Capital Resources. The Association's members' equity was $441,017 and $401,879 at September 30, 2023 and December 31, 2022, respectively, a $39,138 increase, which approximates current earnings less preferred stock dividends. The Association's debt as a percentage of members' equity was 6.19:1 as of September 30, 2023, compared to 6.45:1 as of December 31, 2022. FCA regulations require associations 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. See note 4 in the *Notes to Unaudited Consolidated Financial Statements.* As of September 30, 2023, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements. See Note 1 in CFS.

Relationship With FCBT. The Association has a statutory obligation to borrow only from FCBT, which is discussed in note 10, *Note Payable to FCBT*, in the Association's consolidated financial statements in the 2022 Annual Report.

FCBT's ability to access Association capital is discussed in note 2, *Summary of Significant Accounting Policies*, in the Association's consolidated financial statements in the 2022 Annual Report, within the *Capital Stock Investment in the FCBT* section.

FCBT's role to help mitigate Association exposure to IRR is described in the *Liquidity and Funding Sources* section of *Management's Discussion and Analysis of Financial Condition and Results of Operations* and note 9, *Note Payable to FCBT*, in the Association's consolidated financial statements in the 2022 Annual Report.

FCBT provides computer systems to support the critical operations of all *10th Farm Credit District* ("**District**") associations. In addition, each association has operating systems and facility-based systems that are not supported by FCBT. As disclosed in note 13,

Related Party Transactions, in the Association's consolidated financial statements in the 2022 Annual Report, FCBT provides many services to the Association, which include administrative, marketing, accounting services and information systems.

The Association's financial condition may be impacted by factors that affect FCBT. The financial condition and results of operations of FCBT may materially affect Association stockholders' investment in the Association.

Annual and Quarterly Stockholder Report Availability. FCBT's annual and quarterly stockholder reports 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) 465-1881. The annual and quarterly stockholder reports for FCBT are also available on its website at *www.farmcreditbank.com.*

Annual and quarterly stockholder reports for the Association are available free of charge on the Association's website www.agtexas.com or by *i*) writing to AgTexas Farm Credit Services, 5004 N. Loop 289, Lubbock, Texas 79416, *ii*) calling (806) 687-4068, or *iii*) e-mailing jeff.fairchild@agtexas.com.

Consolidated Balance Sheets
(Dollars in thousands)

	September 30, 2023 Unaudited	December 31, 2022 Audited
Assets		
Cash	$ 8	$ 11
Investments ($180,835 and $129,653, at fair value)	181,052	129,878
Loans	2,862,090	2,746,971
Less: allowance for loan losses	11,619	8,019
Net loans	2,850,471	2,738,952
Accrued interest receivable	44,811	35,286
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	49,323	49,351
Other	14,770	12,923
Premises and equipment	25,755	26,136
Other assets	3,577	3,431
Total assets	$ 3,169,767	$ 2,995,968
Liabilities		
Note payable to the Farm Credit Bank of Texas	$ 2,674,842	$ 2,495,119
Advance conditional payments	25,055	35,269
Accrued interest payable	9,962	7,539
Accrued postretirement benefit liability	6,301	6,213
Patronage and dividends payable	1,150	31,474
Other liabilities	11,440	18,475
Total liabilities	2,728,750	2,594,089
Members' Equity		
Capital stock and participation certificates	4,367	4,436
Preferred stock	80,000	80,000
Allocated retained earnings	17,251	17,251
Unallocated retained earnings	265,334	225,944
Additional paid-in capital	72,711	72,711
Accumulated other comprehensive income	1,354	1,537
Total members' equity	441,017	401,879
Total liabilities and members' equity	$ 3,169,767	$ 2,995,968

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

Unaudited Consolidated Statements of Comprehensive Income
(Dollars in thousands)

	For the three months ended		For the nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Interest income				
Loans	$ 46,726	$ 32,071	$ 130,842	$ 83,973
Investments	2,403	673	5,962	1,100
Total interest income	49,129	32,744	136,804	85,073
Interest expense				
Note payable to the Farm Credit Bank of Texas	29,210	15,777	79,617	36,087
Advance conditional payments	204	45	707	65
Total interest expense	29,414	15,822	80,324	36,152
Net interest income	19,715	16,922	56,480	48,921
Provision for (reversal of) loan losses	720	1,631	3,036	3,518
Net interest income after provision for (reversal of) losses	18,995	15,291	53,444	45,403
Noninterest income				
Farm Credit Bank of Texas patronage income	1,158	6,416	14,526	19,046
Loan fees	419	276	1,057	880
Fees for financially related services	1,977	2,777	5,361	6,355
Other	839	525	1,955	2,118
Total noninterest income	4,393	9,994	22,899	28,399
Noninterest expenses				
Salaries and employee benefits	6,966	6,644	21,784	19,922
Directors' expense	91	130	260	351
Purchased services	341	319	1,896	1,511
Travel	533	487	1,573	1,358
Occupancy and equipment	474	751	1,317	1,734
Communication	77	80	239	251
Advertising	188	220	509	560
Public and member relations	307	283	1,130	840
Federally regulated examination fees	251	217	684	540
FCSIC insurance premiums	997	1,024	2,919	3,041
Other components of net periodic postretirement benefit cost	59	50	176	150
Other noninterest expense	591	984	1,415	1,854
Total noninterest expenses	10,875	11,189	33,902	32,112
Net income	12,513	14,096	42,441	41,690
Other comprehensive income (loss):				
Change in postretirement benefit plans	(20)	(10)	(61)	(31)
Change in fair value of available for sale investments	35	46	(122)	315
Total other comprehensive income (loss)	15	36	(183)	284
Comprehensive income	$ 12,528	$ 14,132	$ 42,258	$ 41,974

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

Unaudited Consolidated Statements of Changes in Members' Equity

(Dollars in thousands)

	Capital Stock/ Participation Certificates	Preferred Stock	Retained Earnings Allocated	Retained Earnings Unallocated	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2021	$ 4,491	$ 100,000	$ 19,742	$ 199,156	$ 72,711	$ (20)	$ 396,080
Comprehensive income	-	-	-	41,690	-	284	41,974
Capital stock/participation certificates issued	630	-	-	-	-	-	630
Capital stock/participation certificates retired	(668)	-	-	-	-	-	(668)
Preferred stock redeemed	-	(20,000)	-	-	-	-	(20,000)
Preferred stock dividends:							
Paid or declared	-	-	-	(4,450)	-	-	(4,450)
Patronage dividends:							
Paid or accrued	-	-	-	-	-	-	-
Balance at September 30, 2022	$ 4,453	$ 80,000	$ 19,742	$ 236,396	$ 72,711	$ 264	$ 413,566
Balance at December 31, 2022	$ 4,436	$ 80,000	$ 17,251	$ 225,944	$ 72,711	$ 1,537	$ 401,879
Comprehensive income	-	-	-	42,441	-	(183)	42,258
CECL standard adoption adjustment	-	-	-	399	-	-	399
Capital stock/participation certificates issued	392	-	-	-	-	-	392
Capital stock/participation certificates retired	(461)	-	-	-	-	-	(461)
Preferred stock dividends:							
Paid or declared	-	-	-	(3,450)	-	-	(3,450)
Patronage dividends:							
Paid or accrued	-	-	-	-	-	-	-
Balance at September 30, 2023	$ 4,367	$ 80,000	$ 17,251	$ 265,334	$ 72,711	$ 1,354	$ 441,017

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

Note 1: Organization, Operations and Significant Accounting Policies

AgTexas Farm Credit Services and its wholly-owned subsidiaries, *AgTexas, PCA* (“**PCA**”) and *AgTexas, FLCA* (“**FLCA**”), are collectively referred to herein as the “**Association**.” The Association provides financing and related services through FLCA and PCA. FLCA makes secured long-term agricultural real estate and rural home mortgage loans. PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

These notes and the encompassing unaudited consolidated financial statements for the Association (collectively referred to herein as “**CFS**”), include the accounts of PCA and FLCA. All significant intercompany balances and transactions are eliminated in consolidation. In management’s opinion, the CFS reflect all adjustments necessary to fairly state results for the interim periods presented, which are of a normal recurring nature.

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, 2022, as contained in the 2022 *Annual Report to Stockholders* (“**2022 Annual Report**”).

In the opinion of management, the CFS contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with GAAP, except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by *Farm Credit Administration* (“**FCA**”), associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in the CFS. These CFS should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2022 as contained in the 2022 Annual Report. 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, 2023. Descriptions of the significant accounting policies are included in the 2022 Annual Report. 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.

Significant Recent Accounting Pronouncements. The Association adopted the *Financial Accounting Standards Board* (“**FASB**”) guidance entitled “*Measurement of Credit Losses on Financial Instruments*” (“**CECL**”) and other subsequently issued accounting standards updates related to credit losses on January 1, 2023. This guidance replaced the current incurred loss impairment methodology with a single allowance framework for financial assets carried at amortized cost and certain off-balance sheet credit exposures. This guidance 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 affect the collectability of the assets. In addition, the guidance amends existing impairment guidance for held-to-maturity and available-for-sale investments to incorporate an allowance for credit losses related to these securities, which will allow for the reversal of credit impairments in the event that the credit of an issuer improves.

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.

The following table presents the impact to the allowance for credit losses and retained earnings upon adoption of this guidance on January 1, 2023:

	December 31, 2022	CECL adoption impact	January 1, 2023
Assets:			
Allowance for credit losses on loans	$ 8,019	$ 539	$ 8,558
Liabilities:			
Allowance for credit losses on unfunded commitments	1,462	(938)	524
Retained earnings:			
Unallocated retained earnings, net of tax	255,945	399	256,344

Investments. The adoption of CECL did not affect the Association's held-to-maturity or available-for-sale securities as these portfolios consists of U.S. Treasury and U.S. agency securities that inherently have an immaterial risk of loss.

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 any valuation adjustments relating to hedging activities. Loan origination fees and direct loan origination costs are capitalized and amortized over the 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 not 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 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 sheets. 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 losses 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 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 is comprised of:

- the *allowance for credit losses on loans* (“**ACLL**”)
- the allowance for unfunded commitments, which is presented on the balance sheets in other liabilities.

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 ACLL. 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 appraisals or on collateral valuations prepared by in-house appraisers or third parties. 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 component 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 component of the ACLL also considers 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 reasonable and supportable forecast period of two years. Subsequent to the forecast period, the Association reverts to long run historical loss experience beyond the two years on a straight-line basis over a one 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 U.S. unemployment rate, U.S. BBB spread and Dow Jones Total U.S. Stock Market Index. 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 loan losses 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 are considered, including economic conditions, collateral values, borrowers' financial conditions, loan portfolio composition and prior loan loss experience. The allowance for loan losses 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 loan losses, which include, but are 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 sheets. 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 is recorded for commitments that are unconditionally cancellable.

Reclassifications. Certain prior year amounts have been aggregated, rounded and/or reclassified to conform with the current financial statement presentation.

Rounding. Certain amounts in tables may not agree due to rounding.

Note 2: Investment Securities

Held to Maturity **("HTM").** *Federal Agricultural Mortgage Corporation* ("**Farmer Mac**") guaranteed *agricultural mortgage-backed securities* ("**AMBS**") comprise the Association's HTM investment portfolio, and the Association services the underlying loans. Additional information follows:

	AMBS				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
September 30, 2023	$ 217	$ -	$ (16)	$ 201	4.92%
December 31, 2022	225	-	(15)	210	4.95%

The Association has not experienced impairments of these securities. Farmer Mac guarantees the underlying mortgages, and the Association has the ability and intent to hold these securities to maturity or pay-off and it is unlikely the Association would be required to sell these securities. These AMBS have contractual weighted average maturities of 5.12 years as of September 30, 2023, however, expected maturities differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Available for sale ("**AFS**").

The Association's AFS investment securities consist entirely of *Small Business Administration* ("**SBA**") pool securities. A summary of the amortized cost and fair value of AFS investment securities is as follows:

	SBA pool securities				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
September 30, 2023	$ 180,368	$ 1,188	$ (721)	$ 180,835	7.97%
December 31, 2022	129,064	935	(346)	129,653	5.92%

The following table is a summary of the contractual maturity, fair value, amortized cost and weighted average yield of AFS investments securities at September 30, 2023:

	SBA pool securities				
	Due in 1 Year or Less	Due After 1 Year Through 5 Years	Due After 5 Years Through 10 Years	Due After 10 Years	Total
Fair value	$ -	$ 3,953	$ 37,926	$ 138,956	$ 180,835
Amortized cost	-	3,958	37,650	138,760	180,368
Weighted average yield	0.00%	8.81%	8.77%	7.73%	7.97%

Note 3: Loans and ACL

Loans. Loan *carrying amounts* (outstanding principal adjusted as applicable for capitalized accrued interest, direct partial charge-offs, deferred fees or costs on originated loans, and unamortized purchase premiums and discounts; excludes uncapitalized accrued interest) by portfolio *segment* follows:

	September 30, 2023		December 31, 2022	
Loan Type	Amount	%	Amount	%
Real estate mortgage	$ 1,440,106	50.3%	$ 1,477,665	53.8%
Production and intermediate term	1,075,175	37.6%	923,754	33.6%
Agribusiness:				
Loans to cooperatives	8,503	0.3%	13,049	0.5%
Processing and marketing	189,957	6.6%	195,084	7.1%
Farm-related business	49,476	1.8%	53,043	2.0%
Communication	20,511	0.7%	16,816	0.6%
Energy	6,846	0.2%	4,170	0.2%
Water and waste water	16,039	0.6%	6,787	0.2%
Rural residential real estate	5,992	0.2%	6,302	0.2%
Agricultural export finance	12,397	0.4%	11,365	0.4%
Lease receivables	9,165	0.3%	8,635	0.3%
Mission-related investments	27,923	1.0%	30,301	1.1%
Total	$ 2,862,090	100.0%	$ 2,746,971	100.0%

Mission-related investment and real estate mortgage loans purchased with 100% U.S. government agency or government sponsored enterprise guarantees present essentially no credit risk other than purchase premiums, which are forfeited when borrowers prepay or refinance their loans before the premiums are fully amortized. Management anticipates and considers potential prepayments to estimate an appropriate amortization period. Net purchased premiums included in the mission-related investment and real estate mortgage loan balances above as of September 30, 2023 and December 31, 2022, follow:

	September 30, 2023	December 31, 2022
Real estate mortgage	$ 1,066	$ 1,725
Mission-related investments	321	440
Total premium	$ 1,387	$ 2,165

The Association may purchase or sell participations in loans to diversify risk, manage loan volume, and comply with FCA regulations. Participation carrying amount details as of September 30, 2023 follow:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 118,908	$ 401,694	$ 127,682	$ -	$ 246,590	$ 401,694
Production and intermediate term	138,599	1,534,370	126,455	-	265,054	1,534,370
Agribusiness	166,702	34,534	2,542	-	169,244	34,534
Communication	20,511	-	-	-	20,511	-
Energy	6,846	-	-	-	6,846	-
Water and waste water	16,039	-	-	-	16,039	-
Agricultural export finance	12,397	-	-	-	12,397	-
Lease receivables	9,165	-	-	-	9,165	-
Mission-related investments	-	-	27,602	-	27,602	-
Total	$ 489,167	$ 1,970,598	$ 284,281	$ -	$ 773,448	$ 1,970,598

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. Balances of ACPs were $43,274 and $51,554 at September 30, 2023 and December 31, 2022, 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 FCA regulations, each institution that makes 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% of the original appraised value of the property taken as security or up to 97% 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 principal balance:

	Amortized Cost								
	Term Loans by Origination Year							Revolving Loans Converted to Term Loans	
	2023	2022	2021	2020	2019	Prior	Revolving Loans		Total
Real estate mortgage									
Acceptable	$ 106,992	$ 217,882	$ 402,899	$ 209,803	$ 91,521	$ 324,425	$ 39,056	$ 499	$ 1,393,077
OAEM	9,420	-	1,266	3,569	7,113	5,235	-	-	26,603
Substandard/Doubtful	2,565	3,585	1,506	2,736	1,797	1,336	-	6,901	20,426
	118,977	221,467	405,671	216,108	100,431	330,996	39,056	7,400	1,440,106
Production and intermediate-term									
Acceptable	91,984	43,726	45,825	20,292	8,871	6,817	806,270	-	1,023,785
OAEM	3,439	628	467	209	187	231	36,589	-	41,750
Substandard/Doubtful	224	153	92	-	1,479	669	7,023	-	9,640
	95,647	44,507	46,384	20,501	10,537	7,717	849,882	-	1,075,175
Agribusiness									
Acceptable	13,313	57,789	31,866	32,830	9,665	10,322	66,230	-	222,015
OAEM	-	1,316	1,521	442	-	2,534	1,538	132	7,483
Substandard/Doubtful	13,641	-	3,844	-	-	-	953	-	18,438
	26,954	59,105	37,231	33,272	9,665	12,856	68,721	132	247,936
Communication									
Acceptable	12,957	1,497	-	4,598	-	-	89	-	19,141
OAEM	-	-	-	1,370	-	-	-	-	1,370
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	12,957	1,497	-	5,968	-	-	89	-	20,511
Energy									
Acceptable	2,996	-	-	-	-	3,749	101	-	6,846
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	2,996	-	-	-	-	3,749	101	-	6,846

	Amortized Cost								
	Term Loans by Origination Year							Revolving Loans Converted to Term Loans	
	2023	2022	2021	2020	2019	Prior	Revolving Loans		Total
Water and waste water									
Acceptable	$ 7,119	$ 3,364	$ 2,497	$ -	$ -	$ -	$ 3,059	$ -	$ 16,039
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	7,119	3,364	2,497	-	-	-	3,059	-	16,039
Rural home									
Acceptable	1,429	1,760	933	212	565	1,093	-	-	5,992
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	1,429	1,760	933	212	565	1,093	-	-	5,992
Leases									
Acceptable	2,416	-	4,680	1,859	205	5	-	-	9,165
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	2,416	-	4,680	1,859	205	5	-	-	9,165
Agricultural export finance									
Acceptable	11,567	-	-	-	-	-	830	-	12,397
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	11,567	-	-	-	-	-	830	-	12,397
Mission related									
Acceptable	-	-	1,690	1,336	7,583	17,314	-	-	27,923
OAEM	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-
	-	-	1,690	1,336	7,583	17,314	-	-	27,923
Total									
Acceptable	250,773	326,018	490,390	270,930	118,410	363,725	915,635	499	2,736,380
OAEM	12,859	1,944	3,254	5,590	7,300	8,000	38,127	132	77,206
Substandard/Doubtful	16,430	3,738	5,442	2,736	3,276	2,005	7,976	6,901	48,504
	$ 280,062	$ 331,700	$ 499,086	$ 279,256	$ 128,986	$ 373,730	$ 961,738	$ 7,532	$ 2,862,090

The charge-offs of principal during the nine months ended September 30, 2023 are as follows:

	Amortized Cost								
	Gross Charge-offs by Origination Year							Revolving Loans Converted to Term Loans	
	2023	2022	2021	2020	2019	Prior	Revolving Loans		Total
Real estate mortgage	$ -	$ -	$ -	$ -	$ -	$ 12	$ -	$ -	$ 12
Production and intermediate-term	4	-	1	-	3	15	-	-	23
Agribusiness	1,021	-	-	-	-	-	-	-	1,021
Total	$ 1,025	$ -	$ 1	$ -	$ 3	$ 27	$ -	$ -	$ 1,056

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 September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
Real estate mortgage		
Acceptable	96.0%	98.1%
OAEM	2.4%	0.6%
Substandard/doubtful	1.6%	1.3%
	100.0%	100.0%
Production and intermediate term		
Acceptable	95.2%	98.3%
OAEM	3.8%	0.9%
Substandard/doubtful	1.0%	0.8%
	100.0%	100.0%
Loans to cooperatives		
Acceptable	100.0%	100.0%
OAEM	0.0%	0.0%
Substandard/doubtful	0.0%	0.0%
	100.0%	100.0%
Processing and marketing		
Acceptable	88.9%	87.2%
OAEM	3.9%	10.3%
Substandard/doubtful	7.2%	2.5%
	100.0%	100.0%
Farm-related business		
Acceptable	90.4%	100.0%
OAEM	0.0%	0.0%
Substandard/doubtful	9.6%	0.0%
	100.0%	100.0%
Communication		
Acceptable	93.4%	100.0%
OAEM	6.6%	0.0%
Substandard/doubtful	0.0%	0.0%
	100.0%	100.0%
Energy		
Acceptable	100.0%	100.0%
OAEM	0.0%	0.0%
Substandard/doubtful	0.0%	0.0%
	100.0%	100.0%
Water and waste water		
Acceptable	100.0%	100.0%
OAEM	0.0%	0.0%
Substandard/doubtful	0.0%	0.0%
	100.0%	100.0%
Rural residential real estate		
Acceptable	100.0%	100.0%
OAEM	0.0%	0.0%
Substandard/doubtful	0.0%	0.0%
	100.0%	100.0%
Agricultural export finance		
Acceptable	100.0%	100.0%
OAEM	0.0%	0.0%
Substandard/doubtful	0.0%	0.0%
	100.0%	100.0%
Lease receivables		
Acceptable	100.0%	100.0%
OAEM	0.0%	0.0%
Substandard/doubtful	0.0%	0.0%
	100.0%	100.0%
Mission-related investments		
Acceptable	100.0%	100.0%
OAEM	0.0%	0.0%
Substandard/doubtful	0.0%	0.0%
	100.0%	100.0%
Total Loans		
Acceptable	95.2%	97.4%
OAEM	3.0%	1.4%
Substandard/doubtful	1.8%	1.2%
	100.0%	100.0%

Accrued interest receivable on loans of $ 44,811 and $ 35,286 at September 30, 2023 and December 31, 2022 have been excluded from the amortized cost of loans and reported separately in the consolidated balance sheets. The Association wrote off accrued interest receivable of $115 for the nine months ended September 30, 2023.

The following table reflects nonperforming assets, which consist of nonaccrual loans, accruing loans 90 days or more past due and other property owned, along with the related credit quality statistics, The balances at September 30, 2023 present the amortized cost while the balances at December 31, 2022 reflect the amortized cost plus accrued interest.

	September 30, 2023	December 31, 2022
Nonaccrual loans:		
Real estate mortgage	$ 11,451	$ 10,864
Production and intermediate-term	5,983	4,837
Agribusiness	4,797	3,076
Total nonaccrual loans	22,231	18,777
Accruing loans 90 days or more past due:		
Real estate mortgage	2,120	2,184
Production and intermediate-term	-	1,453
Mission-related investments	1,317	5,032
Accruing loans 90 days or more past due total	3,437	8,669
Other property owned	-	-
Total nonperforming assets	$ 25,668	$ 27,446
Nonaccrual loans as a percentage of total loans	0.78%	0.68%
Nonperforming assets as a percentage of total loans and other property owned	0.90%	1.00%
Nonperforming assets as a percentage of capital	5.82%	6.83%

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

	September 30, 2023			Interest Income Recognized For the nine months ended September 30, 2023
	Amortized Cost			
	With Allowance	Without Allowance	Total	
Real estate mortgage	$ 1,906	$ 9,545	$ 11,451	$ 68
Production and intermediate-term	4,532	1,451	5,983	36
Agribusiness	-	4,797	4,797	21
Mission related	-	-	-	68
Total	$ 6,438	$ 15,793	$ 22,231	$ 193

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

September 30, 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	$ 8,065	$ 12,977	$ 21,042	$ 1,419,064	$ 1,440,106	$ 2,120
Production and intermediate-term	3,529	3,384	6,913	1,068,262	1,075,175	-
Loans to cooperatives	-	-	-	8,503	8,503	-
Processing and marketing	13,641	-	13,641	176,316	189,957	-
Farm-related business	-	953	953	48,523	49,476	-
Communication	-	-	-	20,511	20,511	-
Energy	-	-	-	6,846	6,846	-
Water and waste water	-	-	-	16,039	16,039	-
Rural residential real estate	-	-	-	5,992	5,992	-
Agricultural export finance	-	-	-	12,397	12,397	-
Lease receivables	-	-	-	9,165	9,165	-
Mission-related investments	2,480	1,317	3,797	24,126	27,923	1,317
Total	$ 27,715	$ 18,631	$ 46,346	$ 2,815,744	$ 2,862,090	$ 3,437

Prior to the adoption of CECL, the aging analysis of past due loans reported included accrued interest as follows:

December 31, 2022	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	$ 6,425	$ 11,089	$ 17,514	$ 1,478,831	$ 1,496,345	$ 2,184
Production and intermediate-term	1,130	4,088	5,218	931,609	936,827	1,453
Loans to cooperatives	-	1,453	1,453	11,615	13,068	-
Processing and marketing	930	239	1,169	195,252	196,421	-
Farm-related business	-	-	-	53,443	53,443	-
Communication	-	-	-	16,854	16,854	-
Energy	-	-	-	4,184	4,184	-
Water and waste water	-	-	-	6,791	6,791	-
Rural residential real estate	-	-	-	6,332	6,332	-
Agricultural export finance	-	-	-	11,478	11,478	-
Lease receivables	245	-	245	8,409	8,654	-
Mission-related investments	3,176	5,032	8,208	22,457	30,665	5,032
Total	$ 11,906	$ 21,901	$ 33,807	$ 2,747,255	$ 2,781,062	$ 8,669

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 to manage credit exposure.

Effective January 1, 2023, the Association adopted the CECL accounting guidance as described in Note 1. A summary of changes in the ACL by portfolio segment are as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agri-business	Commun-ication	Energy	Water and Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Lease Receivable	Mission-Related Investments	Total
Allowance for loan losses:											
Balance at December 31, 2022	$ 2,382	$ 3,341	$ 2,167	$ 29	$ 3	$ 12	$ 9	$ 10	$ 65	$ 1	$ 8,019
Charge-offs	(27)	(8)	(1,021)	-	-	-	-	-	-	-	(1,056)
Recoveries	13	20	1,011	-	-	-	-	-	-	-	1,044
Provision for loan losses	1,385	2,140	(499)	31	2	15	(1)	(1)	1	-	3,073
Cumulative effect of a change in accounting principle	2,128	(1,510)	(73)	(6)	(1)	1	3	4	(9)	2	539
Balance at September 30, 2023	5,881	3,983	1,585	54	4	28	11	13	57	3	11,619
Allowance for unfunded commitments:											
Balance at December 31, 2022	28	1,113	308	1	-	4	1	7	-	-	1,462
Cumulative effect of a change in accounting principle	(20)	(865)	(52)	1	-	(1)	(1)	-	-	-	(938)
Balance at January 1, 2023	8	248	256	2	-	3	-	7	-	-	524
Provision for unfunded commitments	4	28	(74)	-	-	4	-	1	-	-	(37)
Balance at September 30, 2023	12	276	182	2	-	7	-	8	-	-	487
Total allowance for credit losses	$ 5,893	$ 4,259	$ 1,767	$ 56	$ 4	$ 35	$ 11	$ 21	$ 57	$ 3	$ 12,106

For periods prior to January 1, 2023, the allowance for loan losses was based on probable and estimable losses inherent in the loan portfolio.

	Real Estate Mortgage	Production and Intermediate Term	Agri-business	Commun-ication	Energy	Water and Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Lease Receivable	Mission-Related Investments	Total
Allowance for loan losses:											
Balance at December 31, 2021	$ 1,863	$ 3,532	$ 1,421	$ 27	$ 7	$ 13	$ 6	$ 12	$ 31	$ 1	$ 6,913
Charge-offs	-	-	-	-	-	-	-	-	-	-	-
Recoveries	-	5	-	-	-	-	-	-	-	-	5
Provision for loan losses	1,491	693	295	2	(3)	-	(1)	-	21	-	2,498
Balance at September 30, 2022	3,354	4,230	1,716	29	4	13	5	12	52	1	9,416
Allowance for unfunded commitments:											
Balance at December 31, 2021	22	899	265	1	-	4	1	3	1	-	1,196
Provision for unfunded commitments	1	968	55	-	-	(3)	1	(1)	(1)	-	1,020
Balance at September 30, 2022	23	1,867	320	1	-	1	2	2	-	-	2,216
Total allowance for credit losses	$ 3,377	$ 6,097	$ 2,036	$ 30	$ 4	$ 14	$ 7	$ 14	$ 52	$ 1	$ 11,632

The following table shows the amortized cost basis at the end of the respective reporting period for loan modifications granted to borrowers experiencing financial difficulty, disaggregated by loan type and type of modification granted.

	Term or Payment Extensions	
	For The Nine Months Ended September 30, 2023	Percent of Total Loans
Real estate mortgage	$ 775	0.03%
Production and intermediate-term	651	0.02%

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty as of the nine months ended September 30, 2023 was $46.

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty during the nine months ended September 30, 2023:

	Term or Payment Extensions
	Change in Weighted Average Maturity After Extension
Real estate mortgage	240 days
Production and intermediate-term	746 days

None of the loans to borrowers experiencing financial difficulty that received a modification on or after January 1, 2023, the date of adoption of the guidance "Financial Instruments – Credit Losses: Troubled Debt Restructurings and Vintage Disclosure," through September 30, 2023 defaulted in the period presented.

The following table sets forth an aging analysis of loans to borrowers experiencing financial difficulty that were modified on or after January 1, 2023, the date of the adoption of the guidance noted above, through September 30, 2023:

	Payment Status of Loans Modified in The Past 6 Months		
	Current	30-89 Days Past Due	90 Days or More Past Due
Real estate mortgage	$ 775	$ -	$ -
Production and intermediate-term	651	-	-

Additional commitments to lend to borrowers experiencing financial difficulty whose loans have been modified were $1,276 at September 30, 2023.

Troubled debt restructurings (**"TDR"**). Prior to January 1, 2023, the adoption of updated FASB guidance on loan modifications, a restructuring of a loan constituted a troubled debt restructuring, also known as formally restructured, if the creditor for economic or legal reasons related to the borrower's financial difficulties granted a concession to the borrower that it would not otherwise consider. Concessions varied by program and were borrower-specific and could include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may have been forgiven.

There were no TDRs that occurred in the year ended December 31, 2022 for which there was a payment default in 2022.

The following table provides information on outstanding loans restructured in troubled debt restructurings:

	Loans Modified as TDRs	TDRs in Nonaccrual Status*
	December 31, 2022	December 31, 2022
Real estate mortgage	$ 5,189	$ -
Production and intermediate term	749	749
Total	$ 5,938	$ 749

*represents the portion of loans modified as TDRs that are in nonaccrual status

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 institution's capital adequacy goals as well as the minimum capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's 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 an institution'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.

Regulatory Capitalization Requirements.

	Regulatory Minimums	Capital Conservation Buffer	Total	As of September 30, 2023	As of December 31, 2022
Risk-adjusted:					
Common equity tier 1 ratio	4.50%	2.50%	7.00%	9.94%	9.80%
Tier 1 capital ratio	6.00%	2.50%	8.50%	12.66%	12.63%
Total capital ratio	8.00%	2.50%	10.50%	13.03%	13.05%
Permanent capital ratio	7.00%	0.00%	7.00%	12.70%	12.68%
Non-risk-adjusted:					
Tier 1 leverage ratio	4.00%	1.00%	5.00%	12.19%	12.20%
UREE leverage ratio	1.50%	0.00%	1.50%	8.87%	8.64%

Following are the amounts included in the calculation of the capital ratios as of September 30, 2023:

	Regulatory Capital		Risk weighted assets/ Adjusted average total assets	
	9/30/2023	12/31/2022	9/30/2023	12/31/2022
Risk-adjusted capital ratios				
Common equity tier 1 ratio	$ 292,667	$ 276,602	$ 2,944,153	$ 2,822,410
Tier 1 capital ratio	372,667	356,602	2,944,153	2,822,410
Total capital ratio	383,522	368,458	2,944,153	2,822,410
Permanent capital ratio	372,667	356,602	2,933,744	2,812,762
Non-risk-adjusted capital ratios				
Tier 1 leverage ratio	372,667	356,602	3,057,386	2,923,920
UREE leverage ratio	271,045	252,521	3,057,386	2,923,920

Preferred stock issuance. In September 2021, the Association received clearance from FCA and the board approved the issuance of 80,000 shares of a series of preferred stock, par value of $1,000 per share. The stock was issued October 6, 2021. The stock is designated as *Fixed Rate Reset Perpetual Non-Cumulative Preferred Stock*, *Series B* (“**Series B Preferred Stock**”). The Series B Preferred Stock has a fixed rate dividend of 5.75 percent for five years, payable quarterly. After five years, the dividend rate resets to the Five-Year Treasury Rate plus 4.74 percent. On or after five years, the Association may, at its option, redeem all or part of the Series B Preferred Stock. The Series B Preferred Stock is non-voting, except: (*i*) to materially change the Association’s Charter or Bylaws that would materially adversely affect the holder of Series B Preferred Stock, (*ii*) to create, issue or authorize any class of stock ranking senior to the Series B Preferred Stock as to dividends or liquidation, (*iii*) certain other limited circumstances detailed in the offering circular.

Note 5: Income taxes

The Association is subject to federal and certain other income taxes. The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. During 2023, the Association is participating in a patronage program. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution 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. The subsidiary, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

Note 6: Fair Value Measurements

FASB 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 to the 2022 Annual Report for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

September 30, 2023	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 212	$ -	$ -	$ 212
SBA pool securities	-	180,835	-	180,835

December 31, 2022	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 187	$ -	$ -	$ 187
SBA pool securities	-	129,653	-	129,653

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

September 30, 2023	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans*	$ -	$ -	$ 3,999	$ 3,999

December 31, 2022	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans*	$ -	$ -	$ 8,114	$ 8,114

*Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance "*Accounting by Creditors for Impairment of a Loan.*" The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

Information About Recurring and Nonrecurring Level 3 Fair Value Measurements. With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs, as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs, such as income and expense, comparable sales, replacement cost and comparability adjustments.

Information About Recurring and Nonrecurring Level 2 Fair Value Measurements. SBA pool securities are valued using a third-party pricing vendor. The Association's vendor utilizes major pricing services including Reuters and Intercontinental Exchange. The market values are based on inputs other than quoted prices, including:

- Quoted prices for similar assets in active markets.
- Quoted prices for identical or similar assets in markets that are not active.
- Inputs other than quoted prices, which provide a reasonable basis for fair value determination. Such inputs may include interest rates and yield curves, volatilities, prepayment speeds, credit risks and default rates.
- Inputs derived principally from observable market data.

Valuation Techniques. As more fully discussed in note 2 to the 2022 Annual Report, 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 notes to the 2022 Annual Report.

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 real estate collateral since the loans were collateral dependent. 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. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

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.

Note 7: Employee Benefit Plans

Employee Retirement Benefits. The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the nine months ended September 30:

	2023	2022
Service cost	$ 49	$ 78
Interest cost	237	181
Amortization of prior service credits	(36)	(36)
Amortization of net actuarial loss	(25)	5
Net periodic benefit cost	$ 225	$ 228

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2023, was $6,301 and is included in "Accrued postretirement benefit liability" in 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 statements.

The structure of the Association'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 contributed $1,199 to the District's defined benefit pension plan in 2023. Pension plan funding expense was $899 and $1,195 for the nine months ended September 30, 2023 and 2022.

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: *Accumulated Other Comprehensive Income (Loss)* ("AOCI")

AOCI includes the accumulated balance of certain gains, losses or costs for which values are included in assets or liabilities on the balance sheets, but which have not yet been recognized in earnings. For the Association, these elements include unrealized gains or losses on the AFS investment securities and amortization of retirement benefit elements. The following table summarizes the changes in the components of AOCI for the nine months ended September 30, 2023 and 2022.

	Total	Unrealized gain on SBA pool securities	Retirement benefit plans
AOCI at			
December 31, 2022	$ 1,537	$ 589	$ 948
SBA pool securities:			
Net change in unrealized gains	(122)	(122)	-
Retirement benefit plans:			
Amortization of prior service credits	(36)	-	(36)
Amortization of net actuarial loss	(25)	-	(25)
AOCI at			
September 30, 2023	$ 1,354	$ 467	$ 887

	Total	Unrealized gain on SBA pool securities	Retirement benefit plans
AOCI at			
December 31, 2021	$ (20)	$ 670	$ (690)
SBA pool securities:			
Net change in unrealized gains	315	315	-
Retirement benefit plans:			
Amortization of prior service credits	(36)	-	(36)
and net actuarial loss	5	-	5
AOCI at			
September 30, 2022	$ 264	$ 985	$ (721)

Note 10: Subsequent Events

Association management has evaluated subsequent events through October 25, 2023, which is the date the CFS were issued or available to be issued, with no significant events to report.