



PROUD MEMBER OF THE FARM CREDIT SYSTEM

Quarterly Report To Stockholders

For the Quarter Ended September 30, 2023

REPORT OF MANAGEMENT

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 our knowledge and belief.



Jeff Norte,
Chief Executive Officer



John Malazzo,
Chairman, Board of Directors



Sally Lawson,
Chief Financial Officer

November 9, 2023

Third Quarter 2023 Financial Report

Table of Contents

Management's Discussion and Analysis.....	4
Consolidated Balance Sheets.....	8
Consolidated Statements of Comprehensive Income.....	9
Consolidated Statements of Changes in Members' Equity.....	10
Notes to the Consolidated Financial Statements.....	11

**MANAGEMENT’S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Dollars in thousands)**

The following commentary reviews the financial performance of Capital Farm Credit, ACA, referred to as the association, for the quarter ended September 30, 2023. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2022 Annual Report to Stockholders. The association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder. The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA. The consolidated financial statements were prepared under the oversight of the association’s audit committee.

The unemployment rate in Texas has remained at 4.1 percent for the third quarter while the U.S unemployment rate increased slightly to 3.8 percent. Home sales continue to fall yet inventories only slightly declined. The Federal Open Market Committee held the Federal Funds Rate target range at 5.25 percent to 5.50 percent in both the September and November meetings. The majority of the state continues to be in some of level of drought. The lack of rain has impacted cotton, grain sorghum and summer hay crops. High cattle prices have benefited cow/calf producers while low milk prices and high input costs are negatively impacting dairy producers. Rural land values, including irrigated ranchland and dryland across the state continued to increase in the third quarter.

Rating Agency Actions

Fitch Ratings Actions

On January 11, 2021, Fitch Ratings assigned the association an initial long-term issuer default ratings (IDRs) at “BBB” with a stable outlook. Fitch also assigned a rating of “BB-” for the association’s noncumulative perpetual preferred stock. Fitch reaffirmed the association’s “BBB” with a stable outlook rating on December 12, 2022.

S&P Global Rating Actions

On January 11, 2021, S&P assigned the association an initial long-term issuer default rating at “BBB” with a stable outlook. S&P Global Ratings also assigned a rating of “BB” for the association’s noncumulative perpetual preferred stock. S&P reaffirmed the association’s “BBB” with a stable outlook rating on December 19, 2022.

Corporate Headquarters

In July 2023, the association purchased a building in College Station, TX. The association intends to complete some renovations and expects to relocate its corporate headquarters to the new building during the second half of 2024.

Patronage Refunds by Association

The board of directors approved a \$270,028 patronage distribution for 2022. Of that amount, \$127,595 of this distribution was paid in cash in March 2023, and \$142,433 will be distributed in the form of nonqualified allocated equity, which means the owners of these distributions will not pay federal income taxes until the equities are retired. In March 2023, the association finalized the computation of these distributions which resulted in an increase in cash patronage payable of \$1 for an actual cash distribution of \$127,596, and a decrease of nonqualified allocated equities of \$1 for a final allocation of \$142,432. It is the board’s intention with these allocations to assign ownership of the earnings of the association, allowing the stockholders to benefit more fully from the earnings of the association and to create a method to make future equity distributions in the form of cash. Though there is not a planned retirement of these allocated equities, the board of directors will make an annual evaluation of the association’s capital position and determine if some cash retirements of these equities can be made. In 2021, the board of directors approved a \$233,769 patronage distribution with cash patronage payable of \$108,069 and \$125,700 in nonqualified allocations.

In September 2022, the board of directors approved a resolution to retire \$59,747 in nonqualified allocated equities which was paid to the recipients in November 2022. The retirement was a distribution of the remaining earnings allocated in 2013.

Loan Portfolio

Total loans outstanding at September 30, 2023, including nonperforming loans, were \$11,898,819 compared to \$11,487,825 at December 31, 2022, reflecting an increase of \$410,994, or approximately 3.6 percent, with increases in the farm-related business, production and intermediate term, communication, real estate mortgage, and water and waste disposal industries, offset by decreases in rural residential real estate, lease receivables and mission-related investment industries. Although the association’s growth has slowed down as a result of increasing rates and economic factors, the association has continued to grow at a steady pace.

The association's portfolio quality remains strong with credit quality of 96.9 percent acceptable at September 30, 2023 compared to 98.4 percent at December 31, 2022. Substandard loans increased slightly from 0.9 percent at December 31, 2022 to 1.5 percent at September 30, 2023, and other assets especially mentioned increased from 0.7 percent at December 31, 2022 to 1.6 percent at September 30, 2023. The association recorded \$198 in recoveries and \$2,542 in charge-offs for the nine months ended September 30, 2023, and \$541 in recoveries and \$314 in charge-offs for the same period in 2022. The charge-offs in 2023 were primarily related to one relationship. The association's allowance for loan losses was 0.3 percent of total loans outstanding as of September 30, 2023, and 0.2 percent of total loans at December 31, 2022.

Risk Exposure

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, and other property owned. Formally restructured loans are no longer tracked in 2023 as a result of the implementation of a new accounting standard. The following table summarizes the association's components and trends of high-risk assets:

	<u>September 30, 2023</u>	<u>%</u>	<u>December 31, 2022</u>	<u>%</u>
Nonaccrual loans	\$ 60,699	96.5	\$ 56,133	81.2
Loans 90 days past due and still accruing interest	372	0.6	1,173	1.7
Formally restructured loans	-	-	8,933	12.9
Other property owned, net	1,820	2.9	2,924	4.2
Total	<u>\$ 62,891</u>	<u>100.0</u>	<u>\$ 69,163</u>	<u>100.0</u>

Nonaccrual loans increased \$4,566 during the nine months ended September 30, 2023, with an increase in the farm-related business and real estate mortgage industries and was partially offset by decreases in the energy, production and intermediate-term, rural residential real estate, and lease receivables industries. Nonaccrual loans were 0.5 percent of total loans outstanding at September 30, 2023 and December 31, 2022.

Loans that are 90 or more days past due and still accruing interest decreased \$801 in the nine months ended September 30, 2023 in the production and intermediate-term industry and was offset by an increase in real estate mortgage. These loans have a documented plan that details how and when the amount owed will be paid.

Other property owned decreased \$1,104 during the nine months of 2023. The association is actively working with real estate professionals to ensure properties are accurately valued on the association's books and that proactive marketing activities are in place.

Management also continues to routinely evaluate and monitor counterparty and collateral risks in an effort to avoid concentrations that could result in excess exposure to a single counterparty or type of collateral. The loan portfolio management practices that are in place have been designed to ensure loans and industries with actual or potential problems are promptly identified, monitored and addressed in a manner that allows the lending staff to work with distressed customers and industries through periods of adversity.

Results of Operations

The association had net income of \$203,846 and \$ 55,481 for the nine and three months ended September 30, 2023, respectively, compared to net income of \$207,171 and \$67,806 for the same periods in 2022, reflecting a decrease of \$3,325 and \$12,325 or 1.6 and 18.2 percent, respectively. The decrease in net income for the nine month period ended September 30, 2023, was primarily attributable to an increase in interest expense of \$111,065 or 71.0 percent, an increase in provision for loan losses of \$5,989 or 191.4 percent, a decrease in noninterest income of \$12,495 or 18.2 percent and an increase in noninterest expense of \$5,637 or 5.8 percent, offset by increases in interest income of \$131,870 or 33.4 percent for the same period in the prior year. The decrease in net income for the three month period ended September 30, 2023, was attributable to a decrease in noninterest income of \$17,804 or 80.9 percent, an increase in interest expense of \$33,529 or 54.1 percent and an increase in noninterest expense of \$1,231 or 3.8 percent, offset by an increase in interest income of \$39,478 or 27.4 percent, and a decrease in provision for loan losses of \$769 or 19.1 percent, compared to the same period of 2022.

Net interest income was \$259,572 and \$87,958 for the nine and three months ended September 30, 2023, respectively, compared to \$238,767 and \$82,009 for the same periods in 2022, reflecting increases of \$20,805 or 8.7 percent and \$5,949 or 7.3 percent, respectively. Interest income for the nine and three months ended September 30, 2023, increased by \$131,870 and \$39,478 or 33.4 or 27.4 percent from the same periods of 2022, respectively, primarily as a result of an increase in average earning assets of \$720,083 for the nine month period ended September 30, 2023, and an increase in interest rates. Interest expense for the nine and three months ended September 30, 2023, increased by \$111,065 and \$33,529 or 71.0 and 54.1 percent, respectively, from the same period of 2022, due to an increase in the direct note and an increase in interest rates.

The effects of changes in average volume and interest rates on net interest income in the nine months ended September 30, 2023, as compared with the corresponding period of the prior year, are presented in the following tables:

	For the nine months ended September 30, 2023		For the nine months ended September 30, 2022	
	Average Balance	Interest	Average Balance	Interest
Accrual loans and investments	\$ 11,650,821	\$ 527,089	\$ 10,930,738	\$ 395,219
Interest-bearing liabilities	10,088,067	267,517	9,407,856	156,452
Impact of capital	\$ 1,562,754		\$ 1,522,882	
Net interest income		\$ 259,572		\$ 238,767
	Average Yield		Average Yield	
Yield on loans	6.05%		4.83%	
Cost of interest-bearing Liabilities	3.55%		2.22%	
Net interest spread	2.50%		2.61%	
Net interest income as a percentage of average earning assets	2.98%		2.92%	

	For the nine months ended 2023 vs. 2022		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income	\$ 26,036	\$ 105,834	\$ 131,870
Interest expense	11,312	99,753	111,065
Net interest income	\$ 14,724	\$ 6,081	\$ 20,805

The association's noninterest income for the nine months ended September 30, 2023, decreased \$12,495 or 18.2 percent and \$17,804 or 80.9 percent, for the three months ended September 30, 2023, from the same periods in 2022. The decrease in the nine months ended September 30, 2023, is primarily a result of a decrease in the accrual of patronage from the Bank on the association's direct note of \$20,284 or 38.9 percent as a result of the Bank's updated forecast provided to the association, partially offset by an increase in other noninterest income of \$6,611 or 63.2 percent, compared to the same period of 2022. The decrease in the three months ended September 30, 2023, is primarily a result of a decrease in the accrual of patronage from the Bank on the association's direct note of \$22,032 or 122.3 percent as a result of an adjustment to expected patronage, partially offset by an increase in other noninterest income of \$3,856 or 208.2 percent compared to the same period of 2022.

Noninterest expenses for the nine and three months ended September 30, 2023, increased by \$5,637 and \$1,231 or 5.8 and 3.8 percent, respectively, from the same periods of 2022. The increase in the nine month period is driven by increases in almost every category of noninterest expenses as a result of an increase in headcount, increased prices and continued loan growth, offset by decreases in training of \$673 or 47.3 percent, a decrease in loss on other property owned of \$323 or 100.0 percent, a decrease in purchased services of \$88 or 2.9 percent, a decrease of \$381 or 2.9 percent in insurance fund premiums, a decrease in communications of \$22 or 2.5 percent, and a decrease in other expenses of \$99 or 11.0 percent, from the same period of 2022. The increase in the three month period is primarily driven by an increase in salaries and employee benefits of \$1,021 or 5.1 percent for the same period of 2022.

The association's return on average assets for the nine months ended September 30, 2023, was 2.3 percent and 2.5 percent for the same period of 2022. The association's return on average equity for the nine months ended September 30, 2023, was 14.9 percent, compared to 16.0 percent for the same period in 2022.

Liquidity and Funding Sources

The association secures the majority of its lendable funds from the Bank, which obtains its funds through the issuance of System-wide obligations. The following schedule summarizes the association's borrowings.

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Note payable to the bank	\$10,270,772	\$9,840,475
Accrued interest on note payable	32,318	25,933
Total	<u>\$10,303,090</u>	<u>\$9,866,408</u>

The association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2026. The primary source of liquidity and funding for the association is a direct loan from the Bank. The outstanding balance of \$10,270,772 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 3.9 percent at September 30, 2023. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the Bank and is governed by the GFA. The increase in note payable to the Bank since December 31, 2022, is due to the association's increase in loan volume and the distribution of the 2022 patronage refund. The increase in accrued interest on the note payable is the result of the increase in the interest rate from 3.2 percent at December 31, 2022 to 3.9 percent at September 30, 2023 and an increase in the direct note. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were \$1,619,992 at September 30, 2023. The maximum amount the association may borrow from the Bank as of September 30, 2023, was \$11,768,152 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, which is September 30, 2026, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The liquidity policy of the association is to manage cash balances to maximize debt reduction, and to increase accrual loan volume. This policy will continue to be pursued during 2023. As borrower payments are received, they are applied to the association's note payable with the Bank.

Capital Resources and Regulatory Matters

The association's capital position increased by \$193,121 or 11.2 percent at September 30, 2023, compared to December 31, 2022 primarily as a result of net earnings for the period offset by dividend payments and the implementation of CECL. The association's debt as a percentage of members' equity was 541.3:1 as of September 30, 2023, compared to 5.85:1 percent as of December 31, 2022. Farm Credit Administration regulations require the association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio remains in effect, with some modifications to align with the new regulations. As of September 30, 2023, the association exceeded all regulatory capital requirements. For more information, see Note 5-“Members Equity” in the accompanying financial statements.

Significant Recent Accounting Pronouncements

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

Relationship with the Farm Credit Bank of Texas

The association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2022 Annual Report of Capital Farm Credit more fully describe the association's relationship with the Bank.

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

The association's annual and quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Capital Farm Credit, ACA, P.O. Box 488, Hondo, Texas 78861 or calling (830) 426-4589. Copies of the association's quarterly and annual stockholder reports are also available on its website at www.capitalfarmcredit.com or can be requested by emailing Javier.Lemus@capitalfarmcredit.com.

CAPITAL FARM CREDIT, ACA
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	September 30, 2023	December 31, 2022
	(Unaudited)	(Audited)
<u>ASSETS</u>		
Loans	\$ 11,898,819	\$ 11,487,825
Less: Allowance for losses	(30,849)	(21,386)
Net Loans	11,867,970	11,466,439
Accrued interest receivable - loans	105,307	84,311
Investment - held-to-maturity	1,118	1,496
Accrued interest receivable - investments	19	28
Investment in and receivable from the Bank:		
Capital stock	190,918	191,460
Receivable	32,314	21,295
Investment in Rural Business Investment Company	12,643	13,024
Investments in other Farm Credit Institutions	20,518	16,928
Other property owned, net	1,820	2,924
Premises and equipment, net	65,450	17,120
Right of use asset - leases	6,780	8,263
Other assets	16,851	18,942
Total assets	\$ 12,321,708	\$ 11,842,230
<u>LIABILITIES</u>		
Note payable to the Bank	\$ 10,270,772	\$ 9,840,475
Advanced conditional payments	12,392	11,034
Accrued interest payable	32,318	25,933
Lease liabilities	7,049	8,492
Patronage distributions payable	7	127,603
Unfunded post retirement medical obligations	21,762	21,420
Reserve for unfunded commitments	450	456
Other liabilities	55,490	78,470
Total liabilities	10,400,240	10,113,883
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	\$ 28,017	\$ 28,337
Preferred stock	200,000	200,000
Non-qualified allocated retained earnings	885,830	885,831
Unallocated retained earnings	804,648	610,986
Accumulated other comprehensive loss	2,973	3,193
Total members' equity	1,921,468	1,728,347
Total liabilities and members' equity	\$ 12,321,708	\$ 11,842,230

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

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)
(UNAUDITED)

	For the three months ended		For the nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
<u>Interest Income</u>				
Loans	\$ 183,490	\$ 144,008	\$ 527,035	\$ 395,154
Investments	17	21	54	65
Total interest income	<u>183,507</u>	<u>144,029</u>	<u>527,089</u>	<u>395,219</u>
<u>Interest Expense</u>				
Note Payable to the Bank	95,448	62,020	267,285	156,443
Advance conditional payments	101	-	232	9
Total interest expense	<u>95,549</u>	<u>62,020</u>	<u>267,517</u>	<u>156,452</u>
Net interest income	<u>87,958</u>	<u>82,009</u>	<u>259,572</u>	<u>238,767</u>
<u>Provision for Loan Losses</u>				
Provision for loan losses	3,248	4,017	9,118	3,129
Net interest income after provision for losses	<u>84,710</u>	<u>77,992</u>	<u>250,454</u>	<u>235,638</u>
<u>Noninterest Income</u>				
Patronage income from the Bank	(4,010)	18,022	31,863	52,147
Loan fees	1,686	1,386	4,629	4,461
Financially related services income	499	352	1,193	393
Gain on sale of premises and equipment, net	316	391	1,073	1,361
Gain on other property owned, net	-	-	498	-
Other noninterest income	5,708	1,852	17,065	10,454
Total noninterest income	<u>4,199</u>	<u>22,003</u>	<u>56,321</u>	<u>68,816</u>
<u>Noninterest Expense</u>				
Salaries and employee benefits	20,900	19,879	63,974	60,139
Insurance Fund premium	4,340	4,562	12,925	13,306
Occupancy and equipment	1,746	1,446	5,177	4,577
Advertising	1,421	933	3,835	2,856
Public and member relations	762	637	3,116	2,547
Purchased services	954	949	2,947	3,035
Travel	1,066	903	2,825	2,184
Supervisory and exam expense	607	558	1,820	1,673
Data processing	565	444	1,620	1,381
Business Insurance Expense	2	5	1,336	1,253
Director's expense	249	269	945	815
Communications	231	265	851	873
Training	305	874	750	1,423
Loss on other property owned, net	18	197	-	323
Other noninterest expenses	254	268	801	900
Total noninterest expenses	<u>33,420</u>	<u>32,189</u>	<u>102,922</u>	<u>97,285</u>
Income before income tax	<u>55,489</u>	<u>67,806</u>	<u>203,853</u>	<u>207,169</u>
Provision for (benefit from) income taxes	8	-	7	(2)
Net income	<u>\$ 55,481</u>	<u>\$ 67,806</u>	<u>\$ 203,846</u>	<u>\$ 207,171</u>
Other comprehensive (loss)				
Change in postretirement benefit plans	(73)	(17)	(220)	(52)
Income tax expense related items of other comprehensive income	-	-	-	-
Other comprehensive (loss), net of tax	<u>(73)</u>	<u>(17)</u>	<u>(220)</u>	<u>(52)</u>
COMPREHENSIVE INCOME	<u>\$ 55,408</u>	<u>\$ 67,789</u>	<u>\$ 203,626</u>	<u>\$ 207,119</u>

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

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(Dollars in thousands)
(UNAUDITED)

	Capital Stock/ Participation Certificates	Preferred Stock	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Non-qualified Allocated	Unallocated		
Balance at December 31, 2021	\$ 28,410	\$ 200,000	\$ 803,147	\$ 604,705	\$ (2,957)	\$ 1,633,305
Net income	-	-	-	207,171	-	207,171
Other comprehensive income	-	-	-	-	(52)	(52)
Capital stock/participation certificates issued	4,170	-	-	-	-	4,170
Capital stock/participation certificates/ allocated equities retired	(4,052)	-	(59,747)	-	-	(63,799)
Preferred stock dividends	-	-	-	(7,500)	-	(7,500)
Patronage distributions declared:						
Cash	-	-	-	-	-	-
Nonqualified allocations	-	-	-	-	-	-
Change in patronage declared and paid	-	-	-	-	-	-
Balance at September 30, 2022	28,528	200,000	743,400	804,376	(3,009)	1,773,295
Net income	-	-	-	79,138	-	79,138
Other comprehensive income	-	-	-	-	6,202	6,202
Capital stock/participation certificates issued	965	-	-	-	-	965
Capital stock/participation certificates/ allocated equities retired	(1,156)	-	-	-	-	(1,156)
Preferred stock dividends	-	-	-	(2,500)	-	(2,500)
Patronage distributions declared:						
Cash	-	-	-	(127,595)	-	(127,595)
Nonqualified allocations	-	-	142,433	(142,433)	-	-
Change in patronage declared and paid	-	-	(2)	-	-	(2)
Balance at December 31, 2022	28,337	200,000	885,831	610,986	3,193	1,728,347
Net income	-	-	-	203,846	-	203,846
Other comprehensive loss	-	-	-	-	(220)	(220)
Capital stock/participation certificates issued	2,432	-	-	-	-	2,432
Capital stock/participation certificates/ allocated equities retired	(2,752)	-	-	-	-	(2,752)
Cumulative effect of implementation of CECL	-	-	-	(2,684)	-	(2,684)
Preferred stock dividends	-	-	-	(7,500)	-	(7,500)
Patronage distributions declared:						
Cash	-	-	-	-	-	-
Nonqualified allocations	-	-	-	-	-	-
Change in patronage declared and paid	-	-	(1)	-	-	(1)
Balance at September 30, 2023	\$ 28,017	\$ 200,000	\$ 885,830	\$ 804,648	\$ 2,973	\$ 1,921,468

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

CAPITAL FARM CREDIT, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Capital Farm Credit, ACA including its wholly owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA, (collectively called the “association”), is a member-owned cooperative which provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes in 192 counties in the state of Texas. The association is a lending institution of the Farm Credit System (System) which was established by acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act), to meet the needs of American agriculture.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2022 as contained in the 2022 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (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 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 these consolidated financial statements. 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 to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

Recently Adopted Accounting Pronouncements

The association adopted the Financial Accounting Standards Board (FASB) guidance titled “Measurement of Credit Losses on Financial Instruments” 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 titled “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:

(in thousands)	December 31, CECL adoption January 1,		
	2022	impact	2023
Assets:			
Allowance for credit losses on loans	\$ 21,386	\$ 2,717	\$ 24,103
Liabilities:			
Allowance for credit losses on unfunded commitments	456	(33)	423
Retained earnings:			
Unallocated retained earnings, net of tax	\$ 610,986	\$ 2,684	\$ 608,302

Loans and Allowance for Credit Losses

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

Nonaccrual Loans

Nonaccrual loans are loans for which there is reasonable doubt that all principal and interest will 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 Sheet. The association also elected to not estimate an allowance on interest receivable balances because the nonaccrual policies in place provide for the accrual of interest to cease on a timely basis when all contractual amounts are not expected

Loan Modifications to Borrowers Experiencing Financial Difficulty

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

Collateral dependent loans

Collateral dependent loans are loans secured by collateral, including but not limited to agricultural real estate, crop inventory, equipment and livestock. CECL requires the association to measure the expected credit losses based on fair value of the collateral at the reporting date when the association determines that foreclosure is probable. Additionally, CECL allows a fair value practical expedient as a measurement approach for loans when the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulties. Under the practical expedient measurement approach, the expected credit 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 allowance for credit losses (ACL) represents the estimated current expected credit losses over the remaining contractual life of financial assets measured at amortized cost and certain off-balance sheet credit exposures. The ACL takes into consideration relevant information about past events, current conditions and reasonable and supportable macroeconomic forecasts of future conditions. The contractual term excludes expected extensions, renewals and modifications unless the extension or renewal options are not unconditionally cancellable. The ACL comprises:

- the allowance for credit losses on loans (ACL)
- the allowance for unfunded commitments, which is presented on the balance sheet in other liabilities, and

- the allowance for credit losses on investment securities, which covers held-to-maturity and available-for-sale securities and is recognized within each investment securities classification on the Consolidated Balance Sheets.

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

Methodology for Allowance for Credit Losses on Loans

The allowance for credit losses is based upon estimates that consider the general financial strength of the overall economy and the agricultural economy, as well as the association's loan portfolio composition, credit administration and prior loan loss experience. The association calculates its allowance in two parts, specific allowances and a general allowance. The association evaluates all loans classified as impaired for a specific allowance. This specific allowance is generally based upon the value of the collateral securing the loan relative to the loan amount outstanding. The association utilizes a third-party model to calculate its general allowance. Management has identified segments to group loans with similar repayment sources. The general allowance still utilizes the PD/LGD methodology. The model uses various economic forecasts and management applies a probability weighting based on their best estimates. The association then inputs a reasonable and supportable forecast of three years, after which the model reverts back to the mean within the next two years. Additional significant inputs into the model include prepayment rate and credit conversion factor (CCF) for the association's unfunded commitments. The reserve on unfunded commitments is reported as a liability on the association's Consolidated Balance Sheet.

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 and discounts.

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

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

In estimating the 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 repayment sources, 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 three years. Subsequent to the forecast period, the association reverts to long run historical loss experience beyond the three years on a straight-line basis over a two year reversion period to inform the estimate of losses for the remaining contractual life of the loan portfolio.

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

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

Prior to January 1, 2023, the allowance for 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 are recorded for commitments that are unconditionally cancellable.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended September 30, 2023, are not necessarily indicative of the results to be expected for the year ended December 31, 2023. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — INVESTMENTS:

Investments Held-to-Maturity

The association's held-to-maturity investment consists of Farmer Mac guaranteed agricultural mortgage-backed securities (AMBS). A summary of the amortized cost and fair value of investment securities held-to-maturity is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
September 30, 2023						
Agricultural mortgage-backed securities	\$ 1,118	\$ -	\$ (54)	\$ 1,064	5.54%	5.48
December 31, 2022						
Agricultural mortgage-backed securities	\$ 1,496	\$ -	\$ (69)	\$ 1,427	5.22%	8.34

The Farmer Mac AMBS were received in exchange for mortgage loans which were previously covered under the long-term standby commitments to purchase agreement with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions. Terms of the agreement call for a guarantee fee of 20-50 basis points to be paid to Farmer Mac, and for the association to receive a 30-basis-point fee for servicing the underlying loans.

The association has not experienced any 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 5.48 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.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Industry	September 30 2023	%	December 31 2022	%
Real estate mortgage	\$ 8,715,220	73.2	\$ 8,629,085	75.1
Production and intermediate term	1,653,573	13.9	1,420,590	12.4
Farm-related business	1,011,185	8.5	969,269	8.4
Communication	213,269	1.8	188,748	1.7
Energy	141,142	1.2	141,142	1.2
Rural residential real estate	90,465	0.8	104,966	0.9
Water and waste disposal	52,467	0.4	12,314	0.1
Lease receivables	19,769	0.2	19,908	0.2
Mission-related investments	1,729	0.0	1,803	0.0
Total	\$ 11,898,819	100.0	\$ 11,487,825	100.0

At September 30, 2023, the association held two transactions, which are reported as loans on the Consolidated Balance Sheet totaling \$1,729 and with \$0 in remaining commitments extended under the Rural America Bond Program approved by the FCA. The program is designed to meet the growing and changing needs of agricultural enterprises, agribusinesses and rural communities by providing investment in rural areas.

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 loans as presented on the balance sheet. The association held \$81,166 and \$88,735 in funds which were netted against the loan balance at September 30, 2023 and December 31, 2022, respectively. Unrestricted advance conditional payments are included in liabilities. ACPs are not insured, and interest is generally paid by the association on such balances. Balances of ACPs were \$12,392 and \$11,034 on the balance sheet at September 30, 2023 and December 31, 2022, respectively.

The association purchases or sells participation interests in loans with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following table presents information regarding the balances of participations purchased and sold as of September 30, 2023:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Production and					
Intermediate-term	\$ 792,444	\$ 1,269,539	\$ 1,659	\$ -	\$ 794,103	\$ 1,269,539
Farm-related business	768,296	133,625	-	-	768,296	133,625
Real estate mortgage	266,158	996,701	-	-	266,158	996,701
Communication	213,269	-	-	-	213,269	-
Energy	141,142	-	-	-	141,142	-
Water and waste disposal	52,467	-	-	-	52,467	-
Lease receivables	19,769	-	-	-	19,769	-
Mission-related investments	1,729	-	-	-	1,729	-
Total	\$ 2,255,274	\$ 2,399,865	\$ 1,659	\$ -	\$ 2,256,933	\$ 2,399,865

Credit Quality

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

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

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

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

The September 30, 2023, table presents credit quality indicators by loan type and the related principal balance under the newly adopted accounting standard. The December 31, 2022 information are loans under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans by loan type and were presented with accrued interest receivable.

	Term Loans Amortized Cost by Origination Year						Revolving Loans	Revolving Loans	Revolving Loans	September 30,	December 31,
	2023	2022	2021	2020	2019	Prior	Amortized Cost	Converted to	Total	2023	2022
							Basis	Term Loans			
								Amortized Cost			
Real estate mortgage											
Acceptable	\$ 816,090	\$ 1,500,351	\$ 2,396,036	\$ 1,426,685	\$ 583,224	\$ 1,775,616	\$ 92	\$ 40,537	\$ 8,538,631	98.0%	98.9%
OAEM	11,664	11,679	14,643	13,376	13,544	17,987	-	174	83,067	0.9%	0.6%
Substandard/Doubtful	2,499	14,336	29,452	16,698	5,989	10,929	3,842	9,777	93,522	1.1%	0.5%
										100.0%	100.0%
Current period gross charge-offs	-	-	6	1	35	10	-	-	52		
Production and intermediate-term											
Acceptable	201,730	221,647	114,638	44,771	41,361	75,694	865,646	14,947	1,580,434	95.6%	98.1%
OAEM	91	771	83	362	700	294	53,488	-	55,789	3.4%	0.8%
Substandard/Doubtful	2,696	223	1,040	1,225	237	1,535	10,394	-	17,350	1.0%	1.1%
										100.0%	100.0%
Current period gross charge-offs	-	-	-	-	13	-	1,767	-	1,780		
Farm-related business											
Acceptable	63,485	190,244	175,127	63,585	57,547	133,300	196,878	41,101	921,267	91.1%	94.0%
OAEM	-	533	6,158	10,623	-	7,481	6,307	376	31,478	3.1%	1.6%
Substandard/Doubtful	2,919	-	22,325	16,953	3,475	1,652	11,116	-	58,440	5.8%	4.4%
										100.0%	100.0%
Current period gross charge-offs	-	-	-	-	-	-	-	-	-		
Communication											
Acceptable	29,289	37,404	72,555	26,152	21,577	-	5,017	-	191,994	90%	100.0%
OAEM	-	14,901	-	5,481	-	-	893	-	21,275	10%	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-	-	-
										100%	100.0%
Current period gross charge-offs	-	-	-	-	-	-	-	-	-		
Energy											
Acceptable	5,912	39,541	35,886	-	-	28,783	20,826	9,645	140,593	99.6%	98.0%
OAEM	-	-	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	549	-	-	549	0.4%	2.0%
										100.0%	100.0%
Current period gross charge-offs	-	-	-	-	-	-	-	-	-		
Water and Waste Disposal Loans											
Acceptable	15,208	35,954	-	1,305	-	-	-	-	52,467	100%	100.0%
OAEM	-	-	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-	-	-
										100%	100.0%
Current period gross charge-offs	-	-	-	-	-	-	-	-	-		
Rural residential real estate											
Acceptable	330	11,572	21,976	18,756	8,460	27,928	-	-	89,022	98.4%	98.4%
OAEM	-	108	-	304	-	676	-	-	1,088	1.2%	1.4%
Substandard/Doubtful	-	55	96	-	-	204	-	-	355	0.4%	0.2%
										100.0%	100.0%
Current period gross charge-offs	-	-	-	-	-	-	-	-	-		
Lease											
Acceptable	2,574	3,600	807	278	-	4,241	-	-	11,500	58.2%	74.2%
OAEM	-	-	165	1,219	-	2,609	-	-	3,993	20.2%	19.3%
Substandard/Doubtful	-	-	3,676	-	-	600	-	-	4,276	21.6%	6.5%
										100.0%	100.0%
Current period gross charge-offs	-	-	-	-	-	710	-	-	710		
Mission Related Loans											
Acceptable	-	-	-	-	-	1,729	-	-	1,729	100%	100.0%
OAEM	-	-	-	-	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-	-	-	-	-
										100%	100.0%
Current period gross charge-offs	-	-	-	-	-	-	-	-	-		
Total Loans											
Acceptable	\$ 1,134,618	\$ 2,040,313	\$ 2,817,025	\$ 1,581,532	\$ 712,169	\$ 2,047,291	\$ 1,088,459	\$ 106,230	\$ 11,527,637	96.9%	98.4%
OAEM	11,755	27,992	21,049	31,365	14,244	29,047	60,688	550	196,690	1.6%	0.7%
Substandard/Doubtful	8,114	14,614	56,589	34,876	9,701	15,469	25,352	9,777	174,492	1.5%	0.9%
	\$ 1,154,487	\$ 2,082,919	\$ 2,894,663	\$ 1,647,773	\$ 736,114	\$ 2,091,807	\$ 1,174,499	\$ 116,557	\$ 11,898,819	100.0%	100.0%
Total current period gross charge-offs	-	-	6	1	48	720	1,767	-	2,542		

Accrued interest receivable on loans of \$105,307 and \$84,311 at September 30, 2023 and December 31, 2022 have been excluded from the amortized cost of loans and reported separately in the Consolidated Balance Sheet. The association wrote off accrued interest receivable of \$172 and \$105 for the nine and three months ended September 30, 2023, respectively, compared to \$174 and \$84 for the same periods 2022.

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

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Nonaccrual loans:		
Real estate mortgage	\$ 26,115	\$ 25,539
Production and intermediate-term	7,685	9,950
Farm-related business	25,648	16,401
Rural residential real estate	102	128
Energy	549	2,818
Lease receivable	600	1,297
Total nonaccrual loans	<u>\$ 60,699</u>	<u>\$ 56,133</u>
Accruing loans 90 days or more past due:		
Real estate mortgage	\$ 372	\$ -
Production and intermediate-term	-	1,186
Total accruing loans 90 days or more past due	<u>\$ 372</u>	<u>\$ 1,186</u>
Total nonperforming loans	<u>\$ 61,071</u>	<u>\$ 57,319</u>
Other property owned	1,820	2,924
Total nonperforming assets	<u>\$ 62,891</u>	<u>\$ 60,243</u>
Nonaccrual loans as a percentage of total loans	0.51%	0.49%
Nonperforming assets as a percentage of total loans and other property owned	0.53%	0.52%
Nonperforming assets as a percentage of capital	3.27%	3.49%

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:

	<u>September 30, 2023</u>			<u>Interest Income Recognized</u>	
	<u>Amortized Cost with Allowance</u>	<u>Amortized Cost without Allowance</u>	<u>Total</u>	<u>For the Three Months Ended September 30, 2023</u>	<u>For the Nine Months Ended September 30, 2023</u>
Nonaccrual loans:					
Real estate mortgage	\$ 10,324	\$ 15,791	\$ 26,115	\$ 152	\$ 851
Production and intermediate-term	5,425	2,260	7,685	19	188
Farm-related business	10,341	15,307	25,648	221	830
Rural residential real estate	-	102	102	4	13
Energy	549	-	549	-	-
Communication	-	-	-	-	-
Mission-related investments	-	-	-	-	-
Lease receivables	-	600	600	-	-
Water and waste disposal	-	-	-	-	-
Total nonaccrual loans	<u>\$ 26,639</u>	<u>\$ 34,060</u>	<u>\$ 60,699</u>	<u>\$ 396</u>	<u>\$ 1,882</u>

The following table provides an age 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	Loans > 90 Days and Accruing
Real estate mortgage	\$ 84,465	\$ 15,101	\$ 99,566	\$ 8,615,654	\$ 8,715,220	\$ 372
Production and intermediate-term	4,001	3,962	7,963	1,645,610	1,653,573	-
Farm-related business	29	17,938	17,967	993,218	1,011,185	-
Rural residential real estate	1,228	22	1,250	89,215	90,465	-
Energy	-	-	-	141,142	141,142	-
Communication	-	-	-	213,269	213,269	-
Mission-related investments	-	-	-	1,729	1,729	-
Lease receivables	1,518	600	2,118	17,651	19,769	-
Water and waste disposal	-	-	-	52,467	52,467	-
Total	\$ 91,241	\$ 37,623	\$ 128,864	\$ 11,769,955	\$ 11,898,819	\$ 372

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	Total Past Due	Not Past Due or less than 30	Total Loans	Loans > 90 Days and Accruing
Real estate mortgage	\$ 70,127	\$ 16,698	\$ 86,825	\$ 8,608,541	\$ 8,695,366	\$ -
Production and intermediate-term	35,003	7,738	42,741	1,389,733	1,432,474	1,186
Farm-related business	9,083	-	9,083	964,982	974,065	-
Rural residential real estate	1,536	43	1,579	103,752	105,331	-
Energy	-	-	-	141,783	141,783	-
Communication	-	-	-	188,994	188,994	-
Mission-related investments	-	-	-	1,822	1,822	-
Lease receivables	-	1,297	1,297	18,686	19,983	-
Water and waste disposal	-	-	-	12,318	12,318	-
Total	\$ 115,749	\$ 25,776	\$ 141,525	\$ 11,430,611	\$ 11,572,136	\$ 1,186

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

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 each individual System association to manage credit exposure. The regulatory limit to a single borrower or lessee is 15 percent of the association's lending and leasing limit base but the System association's boards of directors have generally established more restrictive lending limits. This limit applies to associations with long-term and short- and intermediate-term lending authorities, and to the Banks' loan participations.

Effective January 1, 2023, the System adopted the CECL accounting guidance as described in Note 1. A summary of changes in the allowance for credit losses by portfolio segment are as follows:

	Real Estate Mortgage	Production and Intermediate Term	Farm related business	Rural Residential Real Estate	Energy and Water/Waste Disposal	Communication	Mission Related Investments	Lease Receivable	Total
Allowance for Loan Losses:									
Balance at June 30, 2023	\$ 15,023	\$ 4,611	\$ 6,490	\$ 170	\$ 427	\$ 388	\$ 6	\$ 528	\$ 27,643
Charge-offs	(6)	-	-	-	-	-	-	(1)	(7)
Recoveries	-	5	1	-	-	-	-	-	6
Provision for (reversal of) loan losses	1,554	837	649	(9)	43	77	-	56	3,207
CECL Adjustment-Allowance	-	-	-	-	-	-	-	-	-
Balance at September 30, 2023	\$ 16,571	\$ 5,453	\$ 7,140	\$ 161	\$ 470	\$ 465	\$ 6	\$ 583	\$ 30,849
Balance at December 31, 2022	\$ 13,067	\$ 4,512	\$ 2,444	\$ 38	\$ 735	\$ 190	\$ -	\$ 400	\$ 21,386
Charge-offs	(52)	(1,780)	-	-	-	-	-	(710)	(2,542)
Recoveries	13	153	2	-	30	-	-	-	198
Provision for (reversal of) loan losses	2,502	3,318	2,904	(39)	(405)	126	-	685	9,091
CECL Adjustment-Allowance	1,041	(750)	1,790	162	110	149	6	208	2,716
Balance at September 30, 2023	\$ 16,571	\$ 5,453	\$ 7,140	\$ 161	\$ 470	\$ 465	\$ 6	\$ 583	\$ 30,849
Balance at June 30, 2022	\$ 12,652	\$ 4,671	\$ 2,432	\$ 29	\$ 2,308	\$ 156	\$ 1	\$ 30	\$ 22,279
Charge-offs	-	(47)	-	-	-	-	-	-	(47)
Recoveries	10	107	1	-	-	-	-	-	118
Provision for (reversal of) loan losses	29	176	3,791	(2)	(7)	17	(1)	1	4,004
Balance at September 30, 2022	\$ 12,691	\$ 4,907	\$ 6,224	\$ 27	\$ 2,301	\$ 173	\$ -	\$ 31	\$ 26,354
Balance at December 31, 2021	\$ 11,221	\$ 5,501	\$ 2,519	\$ 38	\$ 3,476	\$ 128	\$ 47	\$ 66	\$ 22,996
Charge-offs	(53)	(261)	-	-	-	-	-	-	(314)
Recoveries	10	529	2	-	-	-	-	-	541
Provision for (reversal of) loan losses	1,513	(862)	3,703	(11)	(1,175)	45	(47)	(35)	3,131
Balance at September 30, 2022	\$ 12,691	\$ 4,907	\$ 6,224	\$ 27	\$ 2,301	\$ 173	\$ -	\$ 31	\$ 26,354
Allowance for Unfunded Commitments:									
Balance at June 30, 2023	\$ 14	\$ 148	\$ 231	\$ -	\$ 10	\$ 6	\$ -	\$ -	\$ 409
Provision for (reversal of) loan losses	11	40	(16)	-	4	2	-	-	41
CECL Adjustment-unfunded commitments	-	-	-	-	-	-	-	-	-
Balance at September 30, 2023	\$ 25	\$ 188	\$ 215	\$ -	\$ 14	\$ 8	\$ -	\$ -	\$ 450
Balance at December 31, 2022	\$ 3	\$ 276	\$ 164	\$ -	\$ 9	\$ 4	\$ -	\$ -	\$ 456
Provision for (reversal of) loan losses	8	62	(49)	-	5	1	-	-	27
CECL Adjustment-unfunded commitments	14	(150)	100	-	-	3	-	-	(33)
Balance at September 30, 2023	\$ 25	\$ 188	\$ 215	\$ -	\$ 14	\$ 8	\$ -	\$ -	\$ 450

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

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 during the three months and nine months ended September 30, 2023, disaggregated by loan type and type of modification granted. There were no loans modified to borrowers experiencing financial difficulty which involved interest rate reductions or principal forgiveness during the three or nine months ended September 30, 2023.

	For the Three Months Ended September 30, 2023		For the Nine Months Ended September 30, 2023	
	Term or Payment Extension		Term or Payment Extension	
	September 30, 2023	% of Total Loans	September 30, 2023	% of Total Loans
Farm-related business	\$ 2,920	0.0%	\$ 2,920	0.0%
Real estate mortgage	1,526	0.00	2,392	0.00
Total	\$ 4,446	0.0%	\$ 5,312	0.0%

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty as of the three months and nine months ended September 30, 2023 was \$35 and \$59.

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

	Term or Payment Extension	
	For the Three Months Ended September 30, 2023	For the Nine Months Ended September 30, 2023
Real estate mortgage	142 days	6,706 days
Farm-related business	356 days	28 days

There were no modifications to borrowers experiencing financial difficulty on or after January 1, 2023, the date of adoption of the guidance “Financial Instruments-Credit Losses: Troubled Debt Restructurings and Vintage Disclosure,” that defaulted during the nine or three months ended September 30, 2023.

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 12 Months		
	Current	30-89 Days	90 Days or More Past
		Past Due	Due
Farm-related business	\$ 2,920	\$ -	\$ -
Real estate mortgage	2,392		
Total	\$ 5,312	\$ -	\$ -

Additional commitments to lend to borrowers experiencing financial difficulty whose loans have been modified were \$0 at September 30, 2023.

Troubled Debt Restructurings

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. When a restructured loan constituted a troubled debt restructuring, these loans were included within our impaired loans under nonaccrual or accruing restructured loans.

The following table presents additional information regarding troubled debt restructurings that occurred during the nine months ended September 30, 2022. There were no restructures that occurred during the three months ended September 30, 2022.

	2022	
	Pre-TDR Designation Balance	Post-TDR Designation Balance
Nine months ended September 30:		
Production and intermediate-term	\$ 299	\$ 299
Total	\$ 299	\$ 299

*Pre-modification represents the recorded investment just prior to restructuring and post-modification represents the recorded investment immediately following the restructuring. The recorded investment is the face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

There were no loans that met the accounting criteria as a troubled debt restructuring and that occurred within the previous 12 months and for which there was a subsequent payment default during the period ended September 30, 2022.

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

	TDRs as of December 31, 2022	
	Loans Modified as TDRs	TDRs in Nonaccrual Status*
Real estate mortgage	\$ 6,394	\$ 2,050
Production and intermediate-term	3,995	2,938
Energy	2,150	2,150
Mission related investments	1,803	-
Farm-related business	1,729	-
Total	\$ 16,071	\$ 7,138

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

NOTE 4 —LEASES:

The association evaluates arrangements at inception to determine if it meets the criteria for a lease. Leases with an initial term of 12 months or less are not recorded on the balance sheet with lease expense recognized on a straight-line basis over the lease term. Operating leases with terms greater than 12 months are included in right of use asset-leases (ROU) and lease liabilities on the balance sheet.

ROU assets represent the association's right to use an underlying asset for the lease term and lease liabilities represent the association's obligation to make lease payments arising from the lease. Operating ROU assets and liabilities are recognized based on the present value of the lease payments over the lease term. As the rate implicit in the lease is generally not readily determinable for the association's operating leases, the discount rates used to determine the present value of the association's lease liability are based on the association's incremental borrowing rate at the lease commencement date and commensurate with the remaining lease term. The incremental borrowing rate for a lease is the association's cost of funds from the Bank over a similar term at an amount equal to the lease payments in a similar economic environment. The association's lease terms may include options to extend or terminate the lease when it is reasonably certain that the association will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term and is included in "Occupancy and equipment" in the income statement.

The components of lease expense were as follows:

	Classification	For the Three Months Ended		For the Nine Months Ended,	
		September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Operating lease expense	Operating	\$ 733	\$ 687	\$ 2,216	\$ 2,073
Short-term lease expense	Operating	68	39	173	162
Total lease expense		\$ 801	\$ 726	\$ 2,389	\$ 2,235

Other information related to leases was as follows:

	For the Three Months Ended		For the Nine Months Ended,	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	\$ 734	\$ 686	\$ 2,175	\$ 2,061
Right-of-use assets obtained in exchange for new lease obligations:				
Operating leases	127	-	313	518

Lease term and discount rate are as follows:

	September 30, 2023	December 31, 2022
Weighted average remaining lease term in years		
Operating leases	2.49	3.00
Weighted average discount rate		
Operating leases	3.0%	2.5%

Future minimum lease payments under non-cancellable leases as of September 30, 2023 were as follows:

	Operating Leases
2023 (excluding the nine months ended 9/30/2023)	\$ 723
2024	2,663
2025	1,728
2026	1,072
2027	948
Thereafter	1,849
Total lease payments	8,983
Less: interest	-
Total	<u>\$ 8,983</u>

NOTE 5 — MEMBERS EQUITY:

The association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the association's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected patronage, equity retirements and other actions that may decrease the association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an association's customer base; and any other risk-oriented activities, such as funding and interest rate risk, 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.

In January 19, 2021 the association issued \$200,000 in noncumulative perpetual preferred stock. The decision to issue preferred stock came in response to the high level of loan growth in 2020 and expected continued growth. The issuance carries an annual dividend rate of 5.00 percent paid quarterly. The issuance will be callable March 15, 2026 and quarterly thereafter. If not called, the dividend will reset for the next five years to 4.52 percent over the five-year treasury on the call date. The association has made dividend payments on March 15, June 15, and September 15, 2023, for a total amount as of the September 30, 2023 of \$7,500.

	September 30, 2023	December 31, 2022
Preferred Stock	\$ 200,000	\$ 200,000
Capital Stock and participation certificates	28,017	28,337
Non-qualified allocated retained earnings	885,830	885,831
Unallocated retained earnings*	804,648	610,986
Accumulated other comprehensive loss	2,973	3,193
Total capital	<u>\$ 1,921,468</u>	<u>\$ 1,728,347</u>

*Unallocated retained earnings for the quarter ended September 30, 2023, reflects a decrease from the cumulative effect of a change in accounting principle for CECL on January 1, 2023.

Regulatory Capital Ratios

	<u>Regulatory Minimums</u>	<u>Conservation Buffers</u>	<u>Total</u>	<u>As of September 30, 2023</u>	<u>As of December 31, 2022</u>
Risk-adjusted:					
Common equity tier 1 ratio	4.5%	2.5%	7.0%	11.6%	11.5%
Tier 1 capital ratio	6.0%	2.5%	8.5%	13.1%	13.1%
Total capital ratio	8.0%	2.5%	10.5%	13.4%	13.3%
Permanent capital ratio	7.0%	0.0%	7.0%	13.2%	13.1%
Non-risk-adjusted:					
Tier 1 leverage ratio	4.0%	1.0%	5.0%	14.0%	13.9%
UREE leverage ratio	1.5%	0.0%	1.5%	4.7%	5.4%

The details for the amounts used in the calculation of the regulatory capital ratios as of September 30, 2023:

90 Day Average Balances (dollars in thousands)	<u>Common equity tier 1 ratio</u>	<u>Tier 1 capital ratio</u>	<u>Total capital ratio</u>	<u>Permanent capital ratio</u>
Numerator:				
Unallocated retained earnings	\$ 752,671	\$ 752,671	\$ 752,671	\$ 752,671
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	28,047	28,047	28,047	28,047
Allocated equities held ≥ 7 years	885,830	885,830	885,830	885,830
Nonqualified allocated equities not subject to retirement	-	-	-	-
Non-cumulative perpetual preferred stock	-	200,000	200,000	200,000
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	28,381	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(192,306)	(192,306)	(192,306)	(192,306)
Other regulatory required deductions	(1,207)	(1,207)	(1,207)	(1,207)
	<u>\$ 1,473,035</u>	<u>\$ 1,673,035</u>	<u>\$ 1,701,416</u>	<u>\$ 1,673,035</u>
Denominator:				
Risk-adjusted assets excluding allowance	12,937,499	12,937,499	12,937,499	12,937,499
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(193,513)	(193,513)	(193,513)	(193,513)
Allowance for loan losses	-	-	-	(27,971)
	<u>\$ 12,743,986</u>	<u>\$ 12,743,986</u>	<u>\$ 12,743,986</u>	<u>\$ 12,716,015</u>

Non-risk-adjusted Capital Ratios

90 Day Average Balances (dollars in thousands)	<u>Tier 1 leverage ratio</u>	<u>UREE leverage ratio</u>
Numerator:		
Unallocated retained earnings	\$ 752,671	\$ 752,671
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	28,047	-
Allocated equities held ≥ 7 years	885,830	-
Non-cumulative perpetual preferred stock	200,000	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(192,306)	(192,305)
Other regulatory required deductions	(1,207)	(1,207)
	<u>\$ 1,673,035</u>	<u>\$ 559,159</u>
Denominator:		
Total Assets	12,200,034	12,200,034
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(225,562)	(225,562)
	<u>\$ 11,974,472</u>	<u>\$ 11,974,472</u>

The association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "Salaries and employee benefits" in the Consolidated Statement of Comprehensive Income. The following table summarizes the changes in accumulated other comprehensive income (loss) for the six months ended September 30:

	<u>2023</u>	<u>2022</u>
Accumulated other comprehensive income/ (loss) at January 1	\$ 3,193	\$ (2,957)
Amortization of prior service (credit) included		
in salaries and employee benefits	(138)	(138)
Amortization of actuarial (gain)/ loss included		
in salaries and employee benefits	(82)	86
Other comprehensive (loss), net of tax	(220)	(52)
Accumulated other comprehensive income/ (loss) at September 30,	<u>\$ 2,973</u>	<u>\$ (3,009)</u>

NOTE 6 — INCOME TAXES:

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

NOTE 7 — 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 15 to the 2022 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis, which are measured at fair value at the end of each reporting period on the association's consolidated balance sheet, are summarized below. The association did not have any liabilities measured at fair value on a recurring basis.

<u>September 30, 2023</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Assets held in nonqualified benefit trusts	\$ 7,911	\$ -	\$ -	\$ 7,911
Total assets	<u>\$ 7,911</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,911</u>
 <u>December 31, 2022</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Assets held in nonqualified benefit trusts	\$ 8,339	\$ -	\$ -	\$ 8,339
Total assets	<u>\$ 8,339</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,339</u>

Assets and liabilities measured at fair value on a nonrecurring basis, which are fair value measurements that are triggered by particular circumstances such as impaired assets, for each of the fair value hierarchy levels are summarized below. The association did not have any liabilities measured at fair value on a nonrecurring basis.

<u>September 30, 2023</u>	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ 21,495	\$ 21,495
Other property owned	-	-	2,197	2,197
<u>December 31, 2022</u>	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ 19,424	\$ 19,424
Other property owned	-	-	3,358	3,358

*Loans represents the fair value of certain loans that were evaluated for impairment under the 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. 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.

Valuation Techniques

As more fully discussed in Note 15 to the 2022 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represents 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 to Stockholders.

Investments

Include mortgage-backed securities issued by the Federal Agricultural Mortgage Corporation (Farmer Mac). Fair values are estimated using discounted cash flows considering market interest rates, estimated prepayment rates, probabilities of default and loss severities. Inputs depend significantly on management judgements and experience with the securities. These fair value measurements are classified as level 3 investments.

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.

Standby Letters of Credit

The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

Loans Evaluated for Impairment

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

Cash

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

Loans

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

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

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

Commitments to Extend Credit

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

NOTE 8 — EMPLOYEE BENEFIT PLANS:

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

	For the three months ended		For the Nine Months Ended,	
	September 30,		September 30,	
	Other Benefits		Other Benefits	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Service Cost	\$ 58	\$ 89	\$ 174	\$ 268
Interest Cost	272	212	817	634
Expected return on plan assets	-	-	-	-
Amortization of prior service (credits)	(46)	(46)	(138)	(138)
Amortization of net actuarial (gain)/ loss	(27)	29	(82)	86
Net periodic benefit cost	<u>\$ 257</u>	<u>\$ 284</u>	<u>\$ 771</u>	<u>\$ 850</u>

The association's liability for the unfunded accumulated obligation for these benefits at September 30, 2023, was \$21,762 and is included in "Unfunded post-retirement medical obligations" in the balance sheet.

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The association recognizes its amortized annual contributions to the plan as an expense. Contributions due and unpaid are recognized as a liability. For the DB plan, the association recognized costs of \$1,251 and \$2,313 for the nine months ended September 30, 2023 and 2022. For the three months ended September 30, 2023 and 2022, the association recognized costs of \$417 and \$771, respectively.

The association's contributions to the DC Plan are expensed as incurred. For the nine months ended September 30, 2023 and 2022, the association recognized pension costs of \$2,824 and \$2,688, respectively. For the three months ended September 30, 2023 and 2022, the association recognized pension costs of \$636 and \$611, respectively.

Employees are also eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. Contributions to the 401(k) plan are expensed as incurred. For the nine month period ended September 30, 2023 and 2022, the association contributed \$2,042 and \$1,946, respectively. The association contributed \$474 and \$463 for the three month period ended September 30, 2023 and 2022, respectively.

The association also participates in a defined contribution nonqualified supplemental 401(k) plan. The total expenses of the nonqualified plan included in the association's employee benefit costs were \$206 and \$136 for the nine months ended September 30, 2023 and 2022, respectively. For the three month period ended September 30, 2023 and 2022, the association's benefit costs were \$34 and \$8, respectively.

NOTE 9 — 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 10 — SUBSEQUENT EVENTS:

In October 2023, the board of directors approved a resolution to retire \$70,065 in nonqualified allocated equities which will be paid to the recipients in November 2023. The retirement is a distribution of all earnings allocated in 2014.

The association has evaluated subsequent events through November 9, 2023, which is the date the financial statements were issued and there are no other significant events requiring disclosure as of this date.