

**Third Quarter  
Financial Report  
September 30, 2023**

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**Farm Credit Services *of* America**  
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## Farm Credit Services of America, ACA

### Management's Discussion and Analysis of Financial Condition and Results of Operations

The following commentary reviews the consolidated financial position and consolidated results of operations of Farm Credit Services of America, ACA, and its subsidiaries Farm Credit Services of America, FLCA and Farm Credit Services of America, PCA. The accompanying consolidated financial statements and notes also contain important information about our unaudited financial position and results of operations. You should also read our 2022 Annual Report for a description of our organization, operations and significant accounting policies.

Due to the nature of our financial relationship with AgriBank, FCB's financial condition and results of operations materially affect our shareholders' investment in Farm Credit Services of America, ACA. To request a free copy of the AgriBank, FCB financial reports or additional copies of our report contact us at PO Box 2409, Omaha, NE 68103-2409, (800) 531-3905 or via email to [\\$sr@fcsamerica.com](mailto:$sr@fcsamerica.com) or view them at our website, [www.fcsamerica.com](http://www.fcsamerica.com). You may also contact AgriBank, FCB at 30 East 7th Street, Suite 1600, St. Paul, MN 55101, (651) 282-8800, or via electronic mail to: [financialreporting@agribank.com](mailto:financialreporting@agribank.com). The AgriBank, FCB's financial reports are also available through AgriBank, FCB's website at [www.agribank.com](http://www.agribank.com).

#### Notice of Significant or Material Events

Effective September 21, 2023, Farm Credit Services of America, ACA, Frontier Farm Credit, ACA and AgCountry Farm Credit Services, ACA entered into a non-binding Letter of Intent ("LOI") to evaluate benefits to be gained by entering into a contractual arrangement to collaborate.

Prior to the Associations entering into the LOI, the Boards of Directors of the Associations determined that they have common and aligned philosophies regarding products, services, pricing, capital, and patronage programs. The Associations recognize that collaborations within the Farm Credit System can achieve a number of benefits including enhanced diversity, risk management capabilities, and enhancing the ability to serve all customers.

Upon conclusion of due diligence, the Associations will determine if they can better serve customers and achieve the desired benefits of scale by entering into a contractual arrangement.

#### Forward-Looking Information

Any forward-looking statements in this Quarterly Financial Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2022 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

#### Commodity Review and Outlook Update

Corn prices began the third quarter higher as dry conditions lowered yield prospects and as Russia ended its participation in the Black Sea Grain Initiative. However, after mid-July, corn prices began falling through the end of the quarter as timely rains across the Midwest provided much needed precipitation during the corn crop's pollination stage helping to offset yield losses otherwise seen from earlier dry conditions.

Soybean prices increased at the beginning of the third quarter after the June Acreage Report showed United States producers planting more corn and less soybeans. Unlike corn, the acreage adjustment created a tighter supply domestically for soybeans with ending stocks projected below their 10-year average. After the peak in prices was seen in mid-July, soybean prices were volatile until mid-August and finished the third quarter trending downward as favorable weather conditions helped offset any yield losses from earlier dry conditions.

The United States cattle industry showed further signs of herd inventory contraction. USDA's Cattle Inventory report showed the total number of cattle and calves on July 1st in the United States was 95.9 million head, the lowest inventory since 2014. Beef cows, at 29.4 million head, matched the lowest number in recorded data since 1971. Persistent drought conditions in some of the major United States cattle areas as well as high feed costs are contributing to the decline. Cattle prices remained high in the third quarter as limited supply and strong consumer demand continued.

After experiencing significant challenges during the second quarter, United States pork producers saw improved and slightly profitable margins in July and August as market prices for hogs increased and feed costs decreased. Pork exports remain strong compared to 2022. Through August, year-to-date pork exports are up 8 percent, largely in part from robust demand from Mexico and growth from other Asian-Pacific markets. However, from USDA's September Hogs and Pigs Report, pork supplies are not declining as fast as many in the industry expected given some of the demand shocks seen during the summer months.

Refer to the Commodity Review and Outlook section of Management's Discussion & Analysis in the 2022 Annual Report for further analysis of farmland prices and industry conditions.

### Loan Portfolio

Total loans were \$40.3 billion at September 30, 2023, an increase of \$2.0 billion, or 5.2 percent from year-end. The increase was primarily due to an increase in rural infrastructure and agribusiness loans.

### Portfolio Credit Quality

Our adversely classified assets increased during the first nine months of 2023 ending the quarter at 1.85 percent of the portfolio, compared to 1.63 percent of the portfolio at December 31, 2022. Adversely classified loans are loans we have identified as showing some credit weakness according to our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for credit losses, and in our opinion, the allowance for credit losses was reasonable in relation to the risk in our loan portfolio at September 30, 2023.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At September 30, 2023, \$1.1 billion of our loans were substantially guaranteed under these government programs compared to \$713.0 million in the same period a year ago. The increase was driven by our evaluation of investment opportunities that provide beneficial economics.

### Nonperforming Assets

Effective January 1, 2023 we adopted Accounting Standards Update (ASU) 2016-13 "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This guidance established a single allowance framework for all financial assets measured at amortized cost and certain off-balance sheet credit exposures, and replaced the incurred loss guidance. This framework requires that management's estimate reflects credit losses over the asset's remaining expected life and considers expected future changes in macroeconomic conditions and is referred to as the Current Expected Credit Loss (CECL) model. The allowance for credit losses comprises the allowance for credit losses on loans, unfunded commitments, and investment securities.

The following table summarizes nonperforming assets and delinquency information (dollars in thousands):

	<b>September 30, 2023</b>	December 31, 2022
Loans:		
Nonaccrual	\$ 179,334	\$ 84,753
Restructured	—	37,036
Accruing loans 90 days or more past due	<b>18,769</b>	12,673
Total nonperforming loans	<b>198,103</b>	134,462
Other property owned, net	—	—
Total nonperforming assets	<b>\$ 198,103</b>	<b>\$ 134,462</b>
Nonperforming loans as a percentage of total loans	<b>0.49%</b>	0.35%
Nonaccrual loans as a percentage of total loans	<b>0.45%</b>	0.22%
Current nonaccrual loans as a percentage of total nonaccrual loans	<b>56.2%</b>	74.1%
Total delinquencies as a percentage of total loans	<b>0.61%</b>	0.29%

Note: Prior to the adoption of the CECL methodology, which was effective January 1, 2023, accruing loans included accrued interest receivable, and nonperforming loans included troubled debt restructured loans.

Total nonperforming assets have increased since year-end due to an increase in nonaccrual loans and accruing loans 90 days or more past due. The increase in nonaccrual loans is primarily due to loans in the swine and fruits/vegetables portfolios slightly offset by a decrease in the grain portfolio. It is our practice to transfer accruing loans that are past due 90 days or more into nonaccrual unless they are adequately secured and in the process of collection. Based on our analysis, loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection and were eligible to remain in accruing status. Nonperforming loans as a percentage of total loans remain at acceptable levels.

### Allowance for Credit Losses

Effective January 1, 2023, with the adoption of CECL, the allowance for credit losses is an estimate of expected credit losses on loans, unfunded commitments and securities. We determine the appropriate level of allowance for credit losses based on a disciplined process and methodology that incorporates expected probabilities of default and severity of loss based on historical portfolio performance, forecasts of future economic conditions, and management's judgement with respect to unique aspects of current and expected conditions that may not be contemplated in historical loss experience or forecasted economic conditions. Prior to January 1, 2023, the allowance for loan losses was an estimate of losses on loans in our portfolio as of the financial statement date.

Allowance for Credit Losses on Loans Coverage Ratios:

	<b>September 30, 2023</b>	December 31, 2022
Allowance as a percentage of:		
Total loans	<b>0.24%</b>	0.15%
Nonaccrual loans	<b>54.65%</b>	68.43%
Total nonperforming loans	<b>49.47%</b>	43.13%

Note: Prior to the adoption of the CECL methodology, which was effective January 1, 2023, accruing loans included accrued interest receivable, and nonperforming loans included troubled debt restructured loans.

Total allowance for credit losses was \$110.0 million at September 30, 2023, and \$70.0 million at December 31, 2022. The increase from December 31, 2022, was primarily related to the cumulative effect adjustment as a result of the adoption of CECL, increased specific reserves and growth. Additional information regarding the CECL adoption is included in Note 1 to the accompanying consolidated financial statements. In our opinion, the allowance for credit losses on loans was reasonable in relation to the risk in our loan portfolio at September 30, 2023.

## Results of Operations

The following table presents profitability information (dollars in thousands):

	<b>For the nine months ended September 30,</b>	
	<b>2023</b>	<b>2022</b>
Net income	<b>\$563,996</b>	\$524,302
Return on average assets	<b>1.83%</b>	1.86%
Return on average members' equity	<b>10.34%</b>	10.18%

Changes in these ratios are directly related to the changes in income discussed in this section, changes in assets discussed in the Loan Portfolio section and changes in capital discussed in the Funding, Liquidity and Members' Equity section.

Major components of the changes in net income for the nine months ended September 30, 2023 compared to the same period in 2022 are outlined in the following table (dollars in thousands):

For the nine months ended September 30,	<b>2023</b>	2022	<b>Increase (decrease) in net income</b>
Net interest income	\$ 728,802	\$ 623,231	\$ 105,571
Provision for credit losses	29,246	(14,067)	(43,313)
Noninterest income	246,342	245,487	855
Noninterest expense	373,175	352,292	(20,883)
Provision for income taxes, net	8,727	6,191	(2,536)
Net income	<b>\$ 563,996</b>	<b>\$ 524,302</b>	<b>\$ 39,694</b>

The effects on net interest income from changes in average volumes and rates are quantified in the following table for the nine months ended September 30, (dollars in thousands):

	<u>2023 vs. 2022</u>
Change in volume	\$ 33,159
Change in rates	74,013
Change in nonaccrual income	<u>(1,601)</u>
Net change	<u>\$ 105,571</u>

The increase in net interest income is due to higher loan volume and an increase in income earned on earning assets funded by our noninterest-bearing source (capital). Partially offsetting the increase in net interest margin were decreases in the net interest spread.

We recorded a \$27.2 million provision for credit losses on loans for the first nine months of 2023, as compared with recording a \$(19.1) million provision for credit losses on loans during the first nine months of 2022. The increase in provision was related to an increase in specific reserves on a few loans. We recorded \$2.0 million provision for credit losses on unfunded commitments for the first nine months of 2023, as compared with \$5.0 million provision for credit losses on unfunded commitments during the first nine months of 2022. Net charge offs for the first nine months of 2023 were \$1.2 million compared to net recoveries of \$1.1 million in the same period a year ago. The change in the provision for credit losses on loans and unfunded commitments reflects our assessment of risk in the loan portfolio.

The increase in noninterest income is primarily due to an increase in patronage income offset by a decrease in loan fees, gains on Rural Business Investment Companies (RBICs) and Rural 1st program fees. The increase in noninterest expense is primarily due to higher salary and benefits expenses due to inflation. The Farm Credit System Insurance expense decreased in 2023 primarily due to a decrease in the Farm Credit System Insurance Fund premium rate. The premium rate, which is primarily impacted by System growth, was 18 basis points for the nine months ended September 30, 2023, compared to 20 basis points for the same period in 2022. The Farm Credit System Insurance Corporation Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time. Refer to Note 1 in our 2022 Annual Report for additional information on the Farm Credit System Insurance Fund. The increase in provision for income taxes is primarily related to our estimate of taxes based on taxable income.

We recorded \$22.9 million of operating expense credits under the income and expense sharing provisions of the alliance agreement with Frontier Farm Credit in the first nine months of 2023 compared to \$18.3 million for the first nine months of 2022. Refer to Note 1 in our 2022 Annual Report for additional information on the alliance.

We may receive patronage from AgriBank, FCB and other Farm Credit entities. Patronage distributions from those entities are declared solely at the discretion of each institution's Board of Directors (dollars in thousands).

	<b>For the nine months ended</b>	
	<b>September 30,</b>	
	<u>2023</u>	<u>2022</u>
Patronage from AgriBank, FCB	\$ 126,590	\$ 115,216
AgDirect, LLP patronage distribution	12,077	10,784
Other patronage	2,847	5,003
Total patronage income	<u>\$ 141,514</u>	<u>\$ 131,003</u>

Patronage from AgriBank, FCB primarily includes wholesale patronage and pool program patronage and may be in the form of cash or stock. All other patronage from other Farm Credit institutions is typically distributed in cash.

### Funding, Liquidity and Members' Equity

We borrow from AgriBank, FCB under a note payable, in the form of a line of credit. The note payable is collateralized by a pledge of substantially all our assets and is governed by a General Financing Agreement (GFA), which provides for an open-ended revolving line of credit. Our note payable was renegotiated as of July 1, 2023 and was renewed for \$38 billion with a maturity of June 30, 2026 at which time the note will be renegotiated, if not sooner. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as Farm Credit Services of America is a stockholder of AgriBank, FCB we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

The components of cost of funds associated with our note payable include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity and bank profit
- A risk premium component, if applicable

We were not subject to a risk premium at September 30, 2023 or December 31, 2022.

Our members' equity increased to \$7.6 billion at September 30, 2023 compared to \$7.1 billion at December 31, 2022. The increase was due to the net income recorded for the first nine months of 2023.

Farm Credit Administration regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital and permanent capital risk-based capital ratios. In addition, the Farm Credit Administration requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 9 in our 2022 Annual Report for a more complete description of these ratios. The capital adequacy ratios are directly impacted by the changes in capital as more fully discussed in this section and the changes in assets as discussed in the Loan Portfolio section, and off-balance sheet commitments, as disclosed in Note 13 in our 2022 Annual Report.

	As of September 30, 2023	As of December 31, 2022	Regulatory Minimums	Capital Conservation Buffers
Risk-adjusted:				
Common equity tier 1 ratio	<b>14.09%</b>	14.82%	4.5%	7.0%
Tier 1 capital ratio	<b>14.09%</b>	14.82%	6.0%	8.5%
Total capital ratio	<b>14.31%</b>	15.00%	8.0%	10.5%
Permanent capital ratio	<b>14.11%</b>	14.84%	7.0%	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	<b>15.55%</b>	16.42%	4.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	<b>15.55%</b>	16.42%	1.5%	1.5%

#### Certification

This report has been prepared under the oversight of the Board's Audit Committee. The undersigned certify that they have reviewed this report and it has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of their knowledge and belief.



Mark Jensen  
President and CEO  
November 2, 2023



Nick Jorgensen  
Chairperson, ACA Board of Directors  
November 2, 2023



Craig P. Kinnison  
Executive Vice-President and CFO  
November 2, 2023

**Farm Credit Services of America, ACA**  
**Consolidated Statements of Condition**

(dollars in thousands)

	September 30, 2023 <u>(unaudited)</u>	December 31, 2022
<b>ASSETS</b>		
Loans	\$ 40,297,143	\$ 38,310,415
Allowance for credit losses on loans	98,000	58,000
Net loans	<u>40,199,143</u>	<u>38,252,415</u>
Cash	26,654	82,232
Accrued interest receivable	721,142	485,158
Investment in securities	757,088	175,884
Investment in RBIC	75,796	64,608
Investment in AgriBank, FCB	1,034,966	958,328
Investment in AgDirect, LLP	122,286	109,059
Premises and equipment, net	227,450	227,743
Deferred tax asset, net	5,904	6,537
Other assets	118,913	58,014
Total assets	<u>\$ 43,289,342</u>	<u>\$ 40,419,978</u>
<b>LIABILITIES</b>		
Notes payable	\$ 35,151,830	\$ 32,580,841
Accrued interest payable	306,277	223,018
Patronage payable	—	341,000
Allowance for credit losses on unfunded commitments	12,000	12,000
Other liabilities	200,296	196,343
Total liabilities	<u>35,670,403</u>	<u>33,353,202</u>
Commitments and contingencies (Note 6)		
<b>MEMBERS' EQUITY</b>		
At-risk capital:		
Class D common stock	95,841	95,413
Class E common stock	3,826	3,726
Less: Capital stock receivable	(99,667)	(99,139)
Retained earnings	7,618,939	7,066,776
Total members' equity	<u>7,618,939</u>	<u>7,066,776</u>
Total liabilities and members' equity	<u>\$ 43,289,342</u>	<u>\$ 40,419,978</u>

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

**Farm Credit Services of America, ACA**  
**Consolidated Statements of Income**

(dollars in thousands)

(unaudited)

	Three Months Ended		Nine Months ended	
	September 30,		September 30,	
	2023	2022	2023	2022
<b>NET INTEREST INCOME</b>				
Interest income	\$ 562,524	\$ 377,861	\$ 1,568,223	\$ 1,024,157
Interest expense	306,959	170,302	839,421	400,926
Net interest income	255,565	207,559	728,802	623,231
Provision for credit losses	7,614	958	29,246	(14,067)
Net interest income after provision for credit losses	247,951	206,601	699,556	637,298
<b>NONINTEREST INCOME</b>				
Patronage income	47,916	43,591	141,514	131,003
AgDirect, LLP program fees	12,985	11,274	38,655	39,760
Insurance services	27,188	23,852	31,068	28,342
Loan fees	9,799	13,146	22,054	28,732
Rural 1st program fees	1,287	1,742	3,430	5,318
Gain on RBIC	782	6,839	776	5,179
Other noninterest income	2,508	3,291	8,845	7,153
Total noninterest income	102,465	103,735	246,342	245,487
<b>NONINTEREST EXPENSE</b>				
Salaries and employee benefits	78,589	72,636	231,570	212,405
Occupancy and equipment expense	12,967	13,777	38,638	38,179
Other operating expenses	20,947	15,187	59,112	56,520
Insurance fund premiums	14,752	20,783	43,855	45,188
Total noninterest expense	127,255	122,383	373,175	352,292
Income before income taxes	223,161	187,953	572,723	530,493
Provision for income taxes	3,357	1,861	8,727	6,191
Net income	<u>\$ 219,804</u>	<u>\$ 186,092</u>	<u>\$ 563,996</u>	<u>\$ 524,302</u>

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

**Farm Credit Services of America, ACA**  
**Consolidated Statements of Changes in Members' Equity**

(dollars in thousands)

(unaudited)

	<u>At-risk Capital</u>		<u>Total Members' Equity</u>
	<u>Capital Stock</u>	<u>Retained Earnings</u>	
Balance at December 31, 2021	\$ —	\$ 6,653,776	\$ 6,653,776
Net income		524,302	524,302
Patronage accrual adjustment		25	25
Capital stock:			
Issuance of stock in exchange for customer stock receivable	7,630		7,630
Release of customer stock receivable associated with retired stock	(7,750)		(7,750)
Less: Capital stock receivable	120		120
Balance at September 30, 2022	<u>\$ —</u>	<u>\$ 7,178,103</u>	<u>\$ 7,178,103</u>
Balance at December 31, 2022	\$ —	\$ 7,066,776	\$ 7,066,776
Net income		<b>563,996</b>	<b>563,996</b>
Patronage accrual adjustment		<b>167</b>	<b>167</b>
Cumulative effect of change in accounting principle		<b>(12,000)</b>	<b>(12,000)</b>
Capital stock:			
Issuance of stock in exchange for customer stock receivable	<b>6,810</b>		<b>6,810</b>
Release of customer stock receivable associated with retired stock	<b>(6,283)</b>		<b>(6,283)</b>
Less: Capital stock receivable	<b>(527)</b>		<b>(527)</b>
<b>Balance at September 30, 2023</b>	<u><b>\$ —</b></u>	<u><b>\$ 7,618,939</b></u>	<u><b>\$ 7,618,939</b></u>

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

## Notes to Consolidated Financial Statements (unaudited)

### Note 1 - Organization and Significant Accounting Policies

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Financial Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the nine months ended September 30, 2023 are not necessarily indicative of the results to be expected for the year ending December 31, 2023. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the consolidated financial statements and related notes included in our 2022 Annual Report for the year ended December 31, 2022. Certain amounts in prior period's consolidated financial statements have been reclassified to conform to the current period's presentation.

The consolidated financial statements present the consolidated financial results of Farm Credit Services of America, ACA (the parent) and Farm Credit Services of America, FLCA and Farm Credit Services of America, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

### Significant Accounting Policies

**Loans** - Loans are carried at their principal amount outstanding, net of any unearned income, cumulative charge-offs and unamortized premiums or discounts on purchased loans. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding.

We place loans in nonaccrual status when:

- principal or interest is delinquent for 90 days or more (unless the loan is adequately secured and in the process of collection), or
- circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse accrued interest, if accrued in the current year. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior charge-offs. Nonaccrual loans may be returned to accrual status when principal and interest are current, the customer's ability to fulfill the contractual payment terms is fully expected, and, if the loan was past due when placed in nonaccrual status, the loan has evidence of sustained performance in making on-time contractual payments.

Loans are charged off at the time they are determined to be uncollectible.

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 remains contractually past due until certain modifications are completed 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.

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

Prior to January 1, 2023, in situations where for economic or legal reasons related to the borrower's financial difficulties, we granted a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan was classified as a troubled debt restructure (TDR) loan for regulatory purposes and U.S. GAAP. A concession was generally granted in order to minimize economic loss and avoid foreclosure. Concessions varied by program and borrower, and may have included interest rate reductions, term extensions, payment deferrals or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may have been forgiven. Loans classified as TDRs were considered risk loans. There may have been modifications made in the normal course of business that were not considered TDRs.

Loans that are sold as participations are transferred as entire financial assets, groups of entire financial assets or participating interests in the financial assets. The transfers of such assets or participating interests are structured such that control over the

transferred assets or participating interests have been surrendered and that all conditions have been met to be accounted for as a sale.

**Allowance for Credit Losses on Loans and Unfunded Commitments** - Effective January 1, 2023, we adopted Accounting Standards Update 2016-13 "financial Instruments - Credit Losses (topic 326): Measurement of Credit Losses on Financial Instruments." This guidance established a single allowance framework for all financial assets measured at amortized cost and certain off-balance sheet credit exposures, and replaced the incurred loss guidance. This framework requires that management's estimate reflects credit losses over the asset's remaining expected life and considers expected future changes in macroeconomic conditions and is referred to as the Current Expected Credit Loss (CECL) model. The allowance for credit losses comprises the allowance for credit losses on loans, unfunded commitments, and investment securities.

The allowance for credit losses on loans and unfunded commitments represents the estimated current expected credit losses over the remaining contractual life of the portfolio, adjusted for expected prepayments, and expected utilization of unfunded commitments. The allowance for credit losses takes into consideration relevant information about past events, current conditions and macroeconomic forecasts of future conditions. Multiple economic scenarios are considered over a reasonable and supportable forecast period, after which, we revert to long run historical economic conditions on an exponential basis. The contractual term excludes expected extensions, renewals, and modifications unless the extension or renewal options are not unconditionally cancellable.

The allowance for credit losses on loans and on unfunded commitments is increased through provisions for credit losses and loan recoveries and is decreased through provisions for credit loss reversals and loan charge-offs. The allowance for credit losses on unfunded commitments is included in the "Liabilities" section in the Statements of Condition. The provision activity is included as part of the "Provision for Credit Losses" in the Consolidated Statements of Income. See Note 2 Loans and Allowance for Credit Losses for further information.

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 then existing loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for credit losses in those future periods. Loans are evaluated on the amortized cost basis, including unamortized premiums and discounts. We utilize multiple economic scenarios - baseline, adverse, and optimistic - over a reasonable and supportable forecast period of two years. Subsequent to the forecast period, we revert to long run historical economic conditions beyond the two years on an exponential basis to inform the estimate of losses for the remaining contractual life of the loan portfolio.

The economic forecasts incorporate macroeconomic variables including 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, we consider 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 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.

We employ a disciplined process and methodology to establish the allowance for credit losses 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.

The asset-specific approach only applies to non-performing exposures. 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 of 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 our 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 allowance for credit losses 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, interest rate product, commodity, credit quality rating, delinquency category or marketplace delivery 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. In addition to the quantitative calculation, we consider 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 allowance for credit losses results. We have no qualitative adjustments in our current allowance.

The final credit loss estimate may also consider factors not reflected in the economic forecast and historical loss experience due to the unique aspects of current conditions and expectations. These factors may include, but are not limited to: lending policies and procedures, experience and depth of lending staff, credit quality and delinquency trends, individual borrower and industry concentrations, national, regional, and local economic business conditions and developments, and collateral value trends.

Prior to January 1, 2023, the allowance for loan losses was an estimate of losses inherent in our loan portfolio as of the financial statement date. We determined the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions. Refer to our 2022 Annual Report for additional information.

**Accrued Interest Receivable** - Accrued interest receivable on loans and investment securities are presented in the Consolidated Statements of Condition. Accrued interest receivable has been excluded from the footnote disclosures for all periods after January 1, 2023.

**Investment Securities** - We are authorized by the Farm Credit Administration to purchase and hold certain types of investments. As we have the positive intent and ability to hold these investments to maturity, they have been classified as held-to-maturity and are carried at cost, adjusted for the amortization of premiums and accretion of discounts and net of allowance for credit losses on investments upon the adoption of CECL. Purchased premiums and discounts are amortized or accreted using the interest method.

Quarterly, we evaluate the investment portfolio for credit losses. For securities that are guaranteed by the United States government or other governmental agencies, we have recognized an allowance for credit losses on investments as our current expectation of nonpayment of the amortized cost basis, based on historical losses, is zero.

There have been no other changes in our accounting policies as disclosed in our 2022 Annual Report, except as described in the Recently Issued or Adopted Accounting Pronouncements section below.

#### **Recently Issued or Adopted Accounting Pronouncements**

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements in alignment with other Farm Credit System Institutions.

In June 2016, the Financial Accounting Standards Board issued ASU 2016-13 "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The guidance was originally effective for non-U.S. Securities and Exchange Commission filers for our first quarter of 2021. In November 2019, the Financial Accounting Standards Board issued ASU 2019-10, which amended the mandatory effective date for this guidance for certain institutions. We qualified for the deferral of the mandatory effective date. As a result of the change, the standard was effective for our first quarter of 2023. Additionally, the Financial Accounting Standards Board issued several updates during 2019 refining and clarifying Topic 326. This guidance replaced the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. We adopted this standard on January 1, 2023. As a result of adoption of this guidance, the allowance for credit losses on loans increased by \$14 million and the allowance for credit losses on unfunded commitments decreased by \$2 million with a cumulative-effect decrease of \$12 million, net of tax balances, to retained earnings. The adoption of the standard did not have a material impact related to our held-to-maturity investment portfolio, as all of these investments carry a full faith and credit guarantee of the United States government and have an immaterial risk of credit loss. No allowance for credit losses was recognized in relation to our investment portfolio upon adoption.

In March 2022, the Financial Accounting Standards Board issued ASU 2022-02 "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures." The guidance was effective at the same time that ASU 2016-13 was adopted. This guidance eliminated the accounting guidance for troubled debt restructurings by creditors in Subtopic 310-40, "Receivables - Troubled Debt Restructurings by Creditors," while enhancing disclosure requirements for certain loan refinancings and restructurings. The expanded vintage disclosures are not applicable to nonpublic business entities. We adopted the standard on January 1, 2023. The adoption of this guidance did not have a material impact on our financial statements but did modify certain disclosures beginning with our first-quarter 2023 Quarterly Report.

Refer to Note 2 in our 2022 Annual Report for additional information on other accounting standards that have been issued but are not yet effective.

**Note 2 – Loans and Allowance for Credit Losses**

Loans by type consisted of the following (dollars in thousands):

	<b>September 30, 2023</b>		December 31, 2022	
	<b>Amount</b>	<b>Percentage</b>	Amount	Percentage
Long-term agricultural mortgage	\$ 23,274,290	57.8 %	\$ 22,875,548	59.7 %
Production and intermediate term	7,102,102	17.6	7,260,340	19.0
Agribusiness	5,413,712	13.4	4,597,358	12.0
Rural infrastructure	2,469,034	6.1	1,765,530	4.6
Rural residential real estate	760,212	1.9	830,775	2.2
Agricultural export finance	152,648	0.4	126,198	0.3
Other	1,125,145	2.8	854,666	2.2
Total loans	<u>\$ 40,297,143</u>	<u>100.0 %</u>	<u>\$ 38,310,415</u>	<u>100.0 %</u>

The Other category is primarily composed of certain assets characterized as mission-related investment loans and U.S. Department of Agriculture guaranteed loans.

As a result of the adoption of CECL, accrued interest receivable on loans of \$712.2 million at September 30, 2023 has been excluded from the amortized cost of loans in all of the following tables and is presented in "Accrued Interest Receivable" in the consolidated statements of condition.

**Credit Quality**

One credit quality indicator we utilize is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

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

We had no loans categorized as loss at September 30, 2023 or December 31, 2022.

The following table shows loans classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans by loan type at amortized cost (dollars in thousands):

As of September 30, 2023							
	Acceptable		OAEM		Substandard/Doubtful		Total
	Amount	%	Amount	%	Amount	%	Amount
Long-term agricultural mortgage	\$ 22,552,352	96.90 %	\$ 359,258	1.54 %	\$ 362,680	1.56 %	\$23,274,290
Production and intermediate term	6,699,401	94.33 %	174,758	2.46 %	227,943	3.21 %	7,102,102
Agribusiness	5,208,868	96.22 %	66,742	1.23 %	138,102	2.55 %	5,413,712
Rural infrastructure	2,439,536	98.80 %	22,351	0.91 %	7,147	0.29 %	2,469,034
Rural residential real estate	743,437	97.79 %	5,253	0.69 %	11,522	1.52 %	760,212
Agricultural export finance	152,648	100.00 %	—	—	—	—	152,648
Other	1,125,145	100.00 %	—	—	—	—	1,125,145
Total	<u>\$ 38,921,387</u>	<u>96.59 %</u>	<u>\$ 628,362</u>	<u>1.56 %</u>	<u>\$ 747,394</u>	<u>1.85 %</u>	<u>\$40,297,143</u>

  

As of December 31, 2022							
	Acceptable		OAEM		Substandard/Doubtful		Total
	Amount	%	Amount	%	Amount	%	Amount
Long-term agricultural mortgage	\$ 22,508,016	96.97%	\$ 401,582	1.73%	\$ 301,651	1.30%	\$23,211,249
Production and intermediate term	7,134,859	96.95%	118,894	1.62%	105,606	1.43%	7,359,359
Agribusiness	4,356,600	94.10%	65,383	1.41%	208,060	4.49%	4,630,043
Rural infrastructure	1,770,309	99.91%	—	—	1,670	0.09%	1,771,979
Rural residential real estate	810,907	97.16%	8,674	1.04%	15,022	1.80%	834,603
Agricultural export finance	127,638	100.00%	—	—	—	—	127,638
Other	860,702	100.00%	—	—	—	—	860,702
Total	<u>\$ 37,569,031</u>	<u>96.84%</u>	<u>\$ 594,533</u>	<u>1.53%</u>	<u>\$ 632,009</u>	<u>1.63%</u>	<u>\$38,795,573</u>

### Delinquency

The following table provides an aging analysis of past due loans by loan type at amortized cost (dollars in thousands):

	30-89	90 Days or	Total Past	Not Past Due	Total Loans	90 Days or
	Days Past	More Past		or Less Than		More Past
As of September 30, 2023	Due	Due	Due	30 Days Past		Due and
Long-term agricultural mortgage	\$ 20,026	\$ 45,310	\$ 65,336	\$ 23,208,954	\$ 23,274,290	\$ 15,060
Production and intermediate term	17,459	36,646	54,105	7,047,997	7,102,102	98
Agribusiness	35,185	333	35,518	5,378,194	5,413,712	—
Rural infrastructure	—	—	—	2,469,034	2,469,034	—
Rural residential real estate	3,405	470	3,875	756,337	760,212	—
Agricultural export finance	—	—	—	152,648	152,648	132
Other	81,552	3,479	85,031	1,040,114	1,125,145	3,479
Total	<u>\$ 157,627</u>	<u>\$ 86,238</u>	<u>\$ 243,865</u>	<u>\$ 40,053,278</u>	<u>\$ 40,297,143</u>	<u>\$ 18,769</u>

  

	30-89 Days	90 Days or	Total Past	Not Past Due	Total Loans	90 Days or
	Past Due	More Past		or Less Than		More Past
As of December 31, 2022		Due	Due	30 Days Past		Due and
Long-term agricultural mortgage	\$ 12,253	\$ 5,268	\$ 17,521	\$ 23,193,728	\$ 23,211,249	\$ —
Production and intermediate term	11,520	3,070	14,590	7,344,769	7,359,359	872
Agribusiness	18,800	—	18,800	4,611,243	4,630,043	—
Rural infrastructure	—	—	—	1,771,979	1,771,979	—
Rural residential real estate	2,252	316	2,568	832,035	834,603	—
Agricultural export finance	—	—	—	127,638	127,638	—
Other	45,482	11,802	57,284	803,418	860,702	11,801
Total	<u>\$ 90,307</u>	<u>\$ 20,456</u>	<u>\$ 110,763</u>	<u>\$ 38,684,810</u>	<u>\$ 38,795,573</u>	<u>\$ 12,673</u>

**Nonperforming Loans**

The following table reflects nonperforming loans, which consist of nonaccrual loans and accruing loans 90 days or more past due at amortized cost (dollars in thousands):

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
<b>Nonaccrual loans:</b>		
Long-term agricultural mortgage	\$ 94,155	\$ 44,718
Production and intermediate term	60,410	8,539
Agribusiness	21,883	27,292
Rural infrastructure	1,373	1,670
Rural residential real estate	1,513	2,534
Total nonaccrual loans	<u>\$ 179,334</u>	<u>\$ 84,753</u>
<b>Accruing restructured loans:</b>		
Long-term agricultural mortgage	\$ —	\$ 20,181
Production and intermediate term	—	10,152
Agribusiness	—	6,703
Total accruing restructured loans	<u>\$ —</u>	<u>\$ 37,036</u>
<b>Accruing loans 90 days or more past due:</b>		
Long-term agricultural mortgage	\$ 15,060	\$ —
Production and intermediate term	98	872
Rural residential real estate	132	—
Other	3,479	11,801
Total accruing loans 90 days or more past due	<u>\$ 18,769</u>	<u>\$ 12,673</u>
Total nonperforming loans	<u>\$ 198,103</u>	<u>\$ 134,462</u>

Note: Prior to adoption of CECL on January 1, 2023, nonperforming loans included restructured loans.

The following table provides the amortized cost for nonperforming loans with and without a related allowance for credit losses on loans, as well as, interest income recognized on nonaccrual during the period (dollars in thousands):

	<u>As of September 30, 2023</u>		<u>For the nine months ended September 30, 2023</u>
	<u>Amortized Cost with Specific Allowance</u>	<u>Amortized Cost without Specific Allowance</u>	<u>Interest Income Recognized</u>
<b>Nonaccrual loans:</b>			
Long-term agricultural mortgage	\$ 9,424	\$ 84,731	\$ (743)
Production and intermediate term	53,832	6,578	(1,076)
Agribusiness	16,473	5,410	31
Rural infrastructure	1,373	—	—
Rural residential real estate	—	1,513	17
Total nonaccrual loans	<u>\$ 81,102</u>	<u>\$ 98,232</u>	<u>\$ (1,771)</u>
<b>Accruing loans 90 days or more past due:</b>			
Long-term agricultural mortgage	\$ —	\$ 15,060	\$ 42
Production and intermediate term	—	98	17
Rural residential real estate	—	132	3
Other	—	3,479	(687)
Total accruing loans 90 days or more past due	<u>\$ —</u>	<u>\$ 18,769</u>	<u>\$ (625)</u>

Reversal of interest income on loans that moved to nonaccrual status were not material for the nine months ended September 30, 2023.

### Loan Modifications Granted to Borrowers Experiencing Financial Difficulty

Loan modifications may be granted to borrowers experiencing financial difficulty. Qualifying disclosable modifications are one or a combination of: principal forgiveness, interest rate reduction, a term extension, or payment deferral. Covenant waivers and modifications of contingent acceleration clauses are not considered term extensions.

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty for the nine months ended September 30, 2023 (in thousands):

	For the nine months ended September 30, 2023			
	Interest Rate Reduction	Term Extension	Total	Percentage of Total Loans
Long-term agricultural mortgage	\$ 1,000	\$ —	\$ 1,000	—
Production and intermediate term	—	33,782	33,782	0.09 %
Agribusiness	—	13,583	13,583	0.03 %
Rural residential real estate	321	—	321	—
Total	<u>\$ 1,321</u>	<u>\$ 47,365</u>	<u>\$ 48,686</u>	<u>0.12 %</u>
Modifications granted as a percentage of total loans	—	0.12 %	0.12 %	

Note: Excludes loans that were modified during the period, but were paid off, repurchased, or sold prior to period end.

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

### Financial Effect of Loan Modifications

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

	For the nine months ended September 30, 2023
	Interest Rate Reduction
	Financial Effect
Long-term agricultural mortgage	<b>Reduced the weighted average contractual interest rate from 8.00% to 6.64%</b>
Rural residential real estate	<b>Reduced the weighted average contractual interest rate from 7.88% to 6.72%</b>
	Term Extension
	Financial Effect
Production and intermediate term	<b>Added a weighted average 16 months to the life of loans, which reduced the monthly payment amount for the borrowers</b>
Agribusiness	<b>Added a weighted average 22 months to the life of loans, which reduced the monthly payment amount for the borrowers</b>

There were no loans to borrowers experiencing financial difficulty that received a modification after January 1, 2023, the date we adopted CECL, through September 30, 2023, that subsequently defaulted during the period presented.

The following table presents the payment status of modified loans for the nine months ended September 30, 2023 (in thousands):

	<b>For the nine months ended September 30, 2023</b>		
	<b>Payment Status of Modified Loans</b>		
	<b>Not Past Due or Less than 30 Days Past Due</b>	<b>30-89 Days Past Due</b>	<b>90 Days or More Past Due</b>
Long-term agricultural mortgage	\$ 1,000	\$ —	\$ —
Production and intermediate term	33,497	285	—
Agribusiness	13,583	—	—
Rural residential real estate	185	—	136
Total	<u>\$ 48,265</u>	<u>\$ 285</u>	<u>\$ 136</u>

There were \$18.5 million additional commitments to lend to borrowers experiencing financial difficulty whose loans have been modified during the period September 30, 2023.

#### **Allowance for Credit Losses**

An analysis of changes in the allowance for credit losses for the nine months ended September 30, 2023 follows (dollars in thousands):

	<b>For the nine months ended September 30,</b>	
	<b>2023</b>	<b>2022</b>
<b>Allowance for credit losses on loans</b>		
Balance at beginning of year	\$ 58,000	\$ 75,000
Cumulative effect of change in accounting principle	14,000	—
Provision for credit losses on loans	27,246	(19,067)
Recoveries	515	1,591
Chargeoffs	(1,761)	(524)
Balance at end of period	<u>\$ 98,000</u>	<u>\$ 57,000</u>
<b>Allowance for credit losses on unfunded commitments</b>		
Balance at beginning of year	\$ 12,000	\$ 12,000
Cumulative effect of change in accounting principle	(2,000)	—
Provision for credit losses on unfunded commitments	2,000	5,000
Balance at end of period	<u>\$ 12,000</u>	<u>\$ 17,000</u>
Total allowance for credit losses	<u>\$ 110,000</u>	<u>\$ 74,000</u>

**Previously Required Disclosures**

The disclosures in this section were required prior to January 1, 2023. Upon the adoption of CECL, these disclosures are no longer required prospectively.

**Risk Loans**

Risk loans are loans for which it was probable that all principal and interest would not be collected according to the contractual terms. The following tables present information concerning risk loans (dollars in thousands):

	December 31, 2022
Risk loans with specific allowance	\$ 20,804
Risk loans without specific allowance	113,658
Total risk loans	<u>\$ 134,462</u>
Total specific allowance	<u>\$ 7,568</u>
	For the nine months ended September 30, 2022
Interest income recognized on nonaccrual loans	\$ (170)
Interest income recognized on risk accrual loans	(300)
Interest income recognized on risk loans	<u>\$ (470)</u>
Average risk loans	\$ 170,331

Note: Accruing loans include accrued interest receivable

**Troubled Debt Restructurings**

Prior to the adoption of CECL, a restructuring of a loan constituted a troubled debt restructuring (TDR), also known as formally restructured, if the creditor for economic or legal reasons related to the borrower's financial difficulties, granted a concession for other than an insignificant period of time to the borrower that would not otherwise be considered. A concession was generally granted in order to minimize economic loss and avoid foreclosure. Concessions varied by program and borrower and may have included interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may have been forgiven. Loans classified as TDRs were considered risk loans. All risk loans were analyzed within our allowance for loan losses. We recorded a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

There were \$74 thousand in TDRs that occurred during the nine months ended September 30, 2022.

There were no TDRs that defaulted during the nine months ended September 30, 2022, in which the modification was within twelve months of the respective reporting period.

The following table presents TDRs outstanding at (dollars in thousands):

TDRs Outstanding	December 31, 2022
Accrual status:	
Long-term agricultural mortgage	\$ 20,181
Production and intermediate term	10,152
Agribusiness	6,703
Total TDRs in accrual status	\$ 37,036
Nonaccrual status:	
Long-term agricultural mortgage	\$ 392
Production and intermediate term	449
Agribusiness	316
Total TDRs in nonaccrual status	\$ 1,157
Total TDRs:	
Long-term agricultural mortgage	\$ 20,573
Production and intermediate term	10,601
Agribusiness	7,019
Total TDRs	\$ 38,193

Note: Accruing loans include accrued interest receivable

### Note 3 – Investment Securities

#### Held-to-Maturity

We held investment securities of \$757.1 million at September 30, 2023, and \$175.9 million at December 31, 2022. Our investment securities consisted of pools of loans guaranteed by the U.S. Small Business Administration (SBA). Our investments are either mortgage-backed securities (MBS), which are generally longer-term investments, or asset-backed securities (ABS), which are generally shorter-term investments.

All of our investment securities were fully guaranteed by the SBA at September 30, 2023 and at December 31, 2022. Premiums paid to purchase the investments are not guaranteed and are amortized as a reduction of interest income.

The investment securities have been classified as held-to-maturity. Effective January 1, 2023, we adopted CECL. Prior to January 1, 2023, the investment portfolio was evaluated for other-than-temporary impairment. No investments within the portfolio were impaired at December 31, 2022. No allowance for credit losses on investments was recognized in relation to our investment portfolio at September 30, 2023.

A summary of the amortized cost and fair value of securities held-to-maturity is as follows (dollars in thousands):

As of September 30, 2023	Amortized Cost
Mortgage-backed securities	\$ 601,731
Asset-backed securities	155,357
Total	\$ 757,088

The following table is a summary of the contractual maturities of investments held to maturity (dollars in thousands):

As of September 30, 2023	Amortized Cost
Five to ten years	\$ 138,995
More than ten years	618,093
Total	\$ 757,088

**Previously Required Disclosures**

The disclosures in this section were required prior to January 1, 2023. Upon the adoption of CECL, these disclosures are no longer required prospectively.

As of December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Mortgage-backed securities	\$ 157,731	\$ 208	\$ 1,790	\$ 156,149	5.00 %
Asset-backed securities	18,153	—	268	17,885	5.50 %
Total	<u>\$ 175,884</u>	<u>\$ 208</u>	<u>\$ 2,058</u>	<u>\$ 174,034</u>	5.10 %

**Note 4 – Investment in Rural Business Investment Company**

We and other Farm Credit System institutions are among the limited partners invested in 13 Rural Business Investment Companies (RBIC). The RBICs facilitate equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. As of September 30, 2023, our current total commitment is \$176.0 million of which \$93.8 million is unfunded with varying commitment end dates through December 2038. Certain commitments may have an option to extend under specific circumstances.

**Note 5 – Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Note 2 in our 2022 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at September 30, 2023, or December 31, 2022. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis is as follows (dollars in thousands):

As of September 30, 2023	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Nonperforming loans	—	—	\$ 64,265	\$ 64,265

  

As of December 31, 2022	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Impaired loans	—	—	\$ 24,666	\$ 24,666

**Nonperforming/Impaired loans:** Represents the carrying amount of loans evaluated individually for credit losses and are deemed to be collateral dependent. The carrying value amount is based on the estimated value of the underlying collateral, less costs to sell. When the fair value of the collateral, less cost to sell, is less than the amortized cost basis of the loan, a specific allowance for expected credit losses is established. Costs to sell represent transaction costs and are not included as a component of the collateral's estimated fair value. Typically, the process requires significant input based on management's knowledge of and judgement about current market conditions, specific issues relating to the collateral and other matters and, therefore, are classified as Level 3 fair value measurements. Prior to adoption of CECL on January 1, 2023, impaired loans included troubled debt restructures, nonaccrual loans and loans 90 days or more past due. Nonperforming loans now include nonaccrual loans and loans 90 days or more past due.

**Note 6- Commitments and Contingencies**

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

From time to time, we may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

Refer to Note 13 in our 2022 Annual Report for additional detail regarding contingencies and commitments.

**Note 7- Subsequent Events**

We have evaluated subsequent events through November 2, 2023, which is the date the financial statements were available to be issued. On November 1, 2023, we sold AgriBank, FCB participation interests and unfunded commitments totaling \$4.5 billion, with funded balances of \$3.5 billion, representing a participation interest across most of our portfolio. There have been no other material subsequent events that would require recognition in our Quarterly Report or disclosure in the notes to consolidated financial statements.