Farm Credit Services of Western Arkansas, ACA

Quarterly Report
September 30, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Services of Western Arkansas, ACA and its subsidiaries, Farm Credit Services of Western Arkansas, FLCA and Farm Credit Services of Western Arkansas, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2022 (2022 Annual Report).

Due to the nature of our financial relationship with AgriBank, FCB (AgriBank), the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank financial reports or additional copies of our report, contact us at:

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FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 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.

AGRICULTURAL AND ECONOMIC CONDITIONS

Weather conditions for the end of the third quarter of 2023 were slightly drier than at the end of June 2023. At the end of June 2023, there was 34.68% of the entire state showing drought conditions. At the end of September 2023, 61.55% of the state was showing drought conditions with a considerable portion of our territory being included.

According to Express Markets, Inc. (EMI) as of September 26, 2023, the number of broilers processed declined 2.0% from a year prior to 169.8 million head with average live weights increased, averaging 6.50 pounds. According to EMI's September 26, 2023, report on broilers, total broiler cold storage stocks ended August 2023 at 825.6 million pounds, which is only a 0.2% decline from August 2022.Storage stocks from July 2023 to August 2023 declined by 11.7 million pounds in the form of declines in breast meat, leg quarters, thigh meat, and paws, while whole birds, legs, thighs, and wings all increased storage stocks.

Based on EMI data as of August 17, 2023, the July 1, 2023, beef cow inventory was the lowest since 1973. Due in part to dry conditions in the central great plains that have contributed to the decline in the beef cow herd. In July 2023 there were an estimated 29.4 million head of beef cows, down 2.6% compared to a year prior. The beef cow replacement inventory was down 2.4%, suggesting that ranchers have not yet started to rebuild the beef herd. For the month of June 2023, beef exports totaled 270 million pounds, carcass weight equivalent, which is up 1.1% from the previous month, but down 14.3% compared to the same period in 2022. This is due to a strong U.S. dollar, higher beef prices, and declining cattle supplies making the U.S. less competitive on the global market. For the state of Arkansas reporting week ended September 25, 2023, medium and large steers (600-645 pounds) averaged $244.43 per hundredweight.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.9 billion at September 30, 2023, an increase of $92.9 million from December 31, 2022. The increase was primarily due to growth in our general portfolio, but namely part-time farms, farm product storage, poultry, and cattle loans.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2022. Adversely classified loans were 1.3% of the portfolio at September 30, 2023, and 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 on loans.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At September 30, 2023, $29.9 million of our loans were substantially guaranteed under these government programs.

Nonperforming Assets

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 and unfunded commitments.

Components of Nonperforming Assets

(dollars in thousands) As of:	**September 30, 2023**	December 31, 2022
Loans:		
Nonaccrual	**$ 16,087**	$ 11,427
Accruing loans 90 days or more past due	**--**	--
Total nonperforming loans	**16,087**	11,427
Other property owned	**--**	--
Total nonperforming assets	**$ 16,087**	$ 11,427
Total nonperforming loans as a percentage of total loans	**0.9%**	0.6%
Nonaccrual loans as a percentage of total loans	**0.9%**	0.6%
Current nonaccrual loans as a percentage of total nonaccrual loans	**59.6%**	63.3%
Total delinquencies as a percentage of total loans	**0.7%**	0.5%

Note: Prior to the adoption of CECL, which was effective January 1, 2023, accruing loans included accrued interest receivable. Additionally, certain prior period ratios have been updated to conform to current period presentation.

Our nonperforming assets have increased from December 31, 2022, but remained at acceptable levels. Despite the increase in nonperforming assets, total nonperforming loans as a percentage of total loans were well within our established risk management guidelines.

The increase in nonaccrual loans was primarily due to a small number of poultry credits moving to nonaccrual during the period ended September 30, 2023. Nonaccrual loans remained at an acceptable level at September 30, 2023, and December 31, 2022.

Allowance for Credit Losses on Loans

Allowance For Credit Losses on Loans Coverage Ratios

As of:	**September 30, 2023**	December 31, 2022
Allowance for credit losses on loans as a percentage of:		
Loans	**0.2%**	0.2%
Nonaccrual loans	**26.8%**	29.4%
Total nonperforming loans[1]	**26.8%**	29.4%

[1]Prior period ratio has been updated to conform to current period presentation.

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

Total allowance for credit losses on loans was $4.3 million at September 30, 2023, and $3.4 million at December 31, 2022. The increase from December 31, 2022, was primarily related to the corresponding increase in nonaccrual loans. Additional information regarding the CECL adoption is included in Note 1. 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

Profitability Information

(dollars in thousands) For the nine months ended September 30,	2023	2022
Net income	$ **24,361**	$ 21,720
Return on average assets	**1.7%**	1.6%
Return on average members' equity	**8.7%**	8.2%

Changes presented in the profitability information chart relate directly to:

- Changes in net income discussed in this section
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity, and Capital section

Changes in Significant Components of Net Income

(in thousands) For the nine months ended September 30,	2023	2022	Increase (decrease) in net income
Net interest income	$ **41,669**	$ 37,645	$ **4,024**
Provision for credit losses	**901**	1,405	**504**
Non-interest income	**8,173**	8,046	**127**
Non-interest expense	**25,111**	22,790	**(2,321)**
Benefit from income taxes	**(531)**	(224)	**307**
Net income	$ **24,361**	$ 21,720	$ **2,641**

Net Interest Income

Changes in Net Interest Income

(in thousands) For the nine months ended September 30,	2023 vs 2022
Changes in volume	$ **2,389**
Changes in interest rates	**1,917**
Changes in nonaccrual income and other	**(282)**
Net change	$ **4,024**

Provision for Credit Losses

The change in the provision for credit losses was related to one large nonaccrual customer that worked out favorably due to payments on their loan obligations and therefore the provision was lower for the nine months ended September 30, 2023. Additionally, we saw a decline in provision required for our general portfolio due to strong credit quality.

Non-Interest Expense

The change in non-interest expense was primarily related to salaries and benefit expense increases due to 2023 merit increases and open positions being filled, as well as an increase in technology expenses from upgrades being put into service.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable is scheduled to mature on May 31, 2025. We intend to renegotiate the note payable no later than the maturity date. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from 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.

In August 2023, Fitch Ratings lowered the U.S. sovereign's long-term Issuer Default Rating and the long-term debt rating for the Farm Credit System to AA+ from AAA, the F1+ short-term ratings were affirmed, and the outlooks on the long-term debt ratings were revised to stable. As a government-sponsored entity, the Farm Credit System benefits from the implicit government support and, therefore, the ratings are directly linked to the U.S. sovereign rating. Additionally, Fitch Ratings lowered the long-term debt rating for the Farm Credit Banks, including AgriBank, to A+ from AA-, the F1+ short-term rating was affirmed, and the outlook on the long-term debt rating was revised to stable. The reduction in the credit rating by Fitch Ratings for the Farm Credit Banks, including AgriBank, could result in higher funding costs which could impact our costs and, ultimately, retail rates.

Total members' equity increased $15.9 million from December 31, 2022, primarily due to net income for the period, partially offset by patronage distribution accruals.

The Farm Credit Administration (FCA) Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 6 in our 2022 Annual Report for a more complete description of these ratios.

Regulatory Capital Requirements and Ratios

As of:	**September 30, 2023**	December 31, 2022	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**17.5%**	17.8%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**17.5%**	17.8%	6.0%	2.5%	8.5%
Total capital ratio	**17.7%**	18.0%	8.0%	2.5%	10.5%
Permanent capital ratio	**17.5%**	17.8%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**17.7%**	17.8%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**17.4%**	17.5%	1.5%	N/A	1.5%

Capital ratios are directly impacted by the changes in capital, as more fully explained in this section, the changes in assets, as discussed in the Loan Portfolio section, and off-balance sheet commitments, as disclosed in Note 10 in our 2022 Annual Report.

CERTIFICATION

The undersigned have reviewed the September 30, 2023, Quarterly Report of Farm Credit Services of Western Arkansas, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Cody Jones
Chairperson of the Board
Farm Credit Services of Western Arkansas, ACA

Brandon Haberer
President and Chief Executive Officer
Farm Credit Services of Western Arkansas, ACA

Lori Schumacher
Senior Vice President of Finance and Chief Financial Officer
Farm Credit Services of Western Arkansas, ACA

November 7, 2023

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Services of Western Arkansas, ACA

(in thousands)

As of:	September 30, 2023	December 31, 2022
	(Unaudited)	
ASSETS		
Loans	**$ 1,883,403**	$ 1,790,513
Allowance for credit losses on loans	**4,319**	3,360
Net loans	**1,879,084**	1,787,153
Investment in AgriBank, FCB	**45,058**	44,456
Accrued interest receivable	**15,689**	12,087
Other assets	**32,274**	26,762
Total assets	**$ 1,972,105**	$ 1,870,458
LIABILITIES		
Note payable to AgriBank, FCB	**$ 1,533,766**	$ 1,457,353
Accrued interest payable	**12,973**	10,099
Deferred tax liabilities, net	**774**	609
Patronage distribution payable	**8,250**	11,000
Other liabilities	**37,292**	28,218
Total liabilities	**1,593,055**	1,507,279
Contingencies and commitments (Note 3)		
MEMBERS' EQUITY		
Capital stock and participation certificates	**6,199**	6,118
Unallocated surplus	**372,851**	357,061
Total members' equity	**379,050**	363,179
Total liabilities and members' equity	**$ 1,972,105**	$ 1,870,458

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

CONSOLIDATED STATEMENTS OF INCOME

Farm Credit Services of Western Arkansas, ACA
(in thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
For the period ended September 30,	**2023**	2022	**2023**	2022
Interest income	**$ 27,084**	$ 21,077	**$ 77,930**	$ 57,225
Interest expense	**12,973**	8,046	**36,261**	19,580
Net interest income	**14,111**	13,031	**41,669**	37,645
Provision for credit losses	**(459)**	1,023	**901**	1,405
Net interest income after provision for credit losses	**14,570**	12,008	**40,768**	36,240
Non-interest income				
Patronage income	**1,911**	1,928	**5,685**	5,595
Financially related services income	**4**	8	**9**	17
Fee income	**879**	776	**2,313**	2,175
Other non-interest income	**2**	7	**166**	259
Total non-interest income	**2,796**	2,719	**8,173**	8,046
Non-interest expense				
Salaries and employee benefits	**4,759**	4,325	**14,215**	12,682
Other operating expense	**3,919**	3,495	**10,896**	9,883
Other non-interest (income) expense	**--**	(21)	**--**	225
Total non-interest expense	**8,678**	7,799	**25,111**	22,790
Income before income taxes	**8,688**	6,928	**23,830**	21,496
Benefit from income taxes	**(202)**	(100)	**(531)**	(224)
Net income	**$ 8,890**	$ 7,028	**$ 24,361**	$ 21,720

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Services of Western Arkansas, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2021	$ 6,049	$ 338,833	$ 344,882
Net income	--	21,720	21,720
Unallocated surplus designated for patronage distributions	--	(7,751)	(7,751)
Capital stock and participation certificates issued	573	--	573
Capital stock and participation certificates retired	(471)	--	(471)
Balance at September 30, 2022	$ 6,151	$ 352,802	$ 358,953
Balance at December 31, 2022	$ 6,118	$ 357,061	$ 363,179
Net income	**--**	**24,361**	**24,361**
Cumulative effect of change in accounting principle	**--**	**(321)**	**(321)**
Unallocated surplus designated for patronage distributions	**--**	**(8,250)**	**(8,250)**
Capital stock and participation certificates issued	**465**	**--**	**465**
Capital stock and participation certificates retired	**(384)**	**--**	**(384)**
Balance at September 30, 2023	**$ 6,199**	**$ 372,851**	**$ 379,050**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim financial information and conform to generally accepted accounting principles in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the nine months ended September 30, 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 Annual Report for the year ended December 31, 2022 (2022 Annual Report).

Principles of Consolidation

The Consolidated Financial Statements present the consolidated financial results of Farm Credit Services of Western Arkansas, ACA and its subsidiaries Farm Credit Services of Western Arkansas, FLCA and Farm Credit Services of Western Arkansas, PCA. 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 net charge-offs, unamortized deferred fees and costs on originated loans, and unamortized premiums or discounts on purchased loans. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Origination fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income. The net amount of loan fees and related origination costs are not material to the Consolidated Financial Statements taken as a whole.

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.

Generally, loans are placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless 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, and the interest is determined to be both uncollectible and the loss is known, we reverse current year accrued interest to the extent principal plus accrued interest exceeds the net realizable value of the collateral prior to reclassification. When we deem a loan to be uncollectible, we charge the loan principal and prior year(s) accrued interest against the allowance for credit losses on loans. Subsequent recoveries, if any, are added to the allowance for credit losses on loans. Any cash received on nonaccrual loans is applied to reduce the carrying amount in the loan, except in those cases where the collection of the carrying amount is fully expected and certain other criteria are met. In these circumstances, interest is credited to income when cash is received. Loans are charged-off at the time they are determined to be uncollectible. 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 (typically based on payment frequency).

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 restructuring (TDR), also known as a formally restructured loan for regulatory purposes. A concession was generally granted 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 loans. 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 the conditions have been met to be accounted for as a sale.

Allowance for Credit Losses: 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 and unfunded commitments.

Allowance for Credit Losses on Loans
Beginning January 1, 2023, the allowance for credit losses on loans (ACLL) represents the estimated current expected credit losses on the loan portfolio over the remaining contractual life of the loan portfolio adjusted for expected prepayments. The ACLL 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 ACLL is increased through provisions for credit losses on loans and loan recoveries and is decreased through reversals of credit losses on loans and loan charge-offs. The provision activity is included as part of the "Provision for credit losses" in the Consolidated Statements of Income.

Determining the appropriateness of the ACLL 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 ACLL in those future periods. Loans are evaluated on the amortized cost basis, including unamortized premiums and discounts.

We employ a disciplined process and methodology to establish the 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. When a loan does not share risk characteristics with other loans, expected credit loss is 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 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 ACLL.

In estimating the component of the ACLL that share common risk characteristics, loans are pooled and segregated into loan classes based on loan type, commodity, and internal risk rating. We utilize a model to calculate an 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 internal risk rating, and the severity of loss, based on the aggregate net lifetime losses incurred. Loan borrower characteristics are also utilized and include internal risk ratings, delinquency status, and the remaining term of the loan, adjusted for expected prepayments.

In order to calculate this estimated migration of loans from performing to loss, we utilize a single economic scenario over a reasonable and supportable forecast period of three years. The economic forecasts are updated on a quarterly basis and include macroeconomic variables such as net farm income, unemployment rates, real gross domestic product levels, housing price index, and agricultural land values. Subsequent to the forecast period, our model reverts to historical loss experience to estimate losses for the remaining estimated contractual life of the portfolio.

The final credit loss estimate also considers 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, collateral value trends, and expected performance of specific industry sectors not reflected in the economic forecast. Consideration of these factors, as well as the imprecision inherent in the process and methodology 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.

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.

Allowance for Credit Losses on Unfunded Commitments
Under CECL, we evaluate the need for an allowance for credit losses on unfunded commitments, which is included in "Other liabilities" in the Consolidated Statements of Condition. The related provision is included as part of the "Provision for credit losses" in the Consolidated Statements of Income. The amount of expected losses is determined by calculating a commitment usage factor over the contractual period for exposures that are not unconditionally cancellable by the Association and applying the loss factors used in the ACLL methodology to the results of the usage calculation. No allowance for credit losses is recorded for commitments that are unconditionally cancellable.

Accrued Interest Receivable: Accrued interest receivable on loans is presented separately in the Consolidated Statements of Condition. Accrued interest receivable has been excluded from the footnote disclosures for all periods after January 1, 2023.

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

Recently Issued or Adopted Accounting Pronouncements

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

Standard and effective date	Description	Adoption status and financial statement impact
In June 2016, the FASB 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 Exchange Commission filers for our first quarter of 2021. In November 2019, the FASB 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 and early adoption was permitted. Additionally, the FASB issued several updates during 2019 refining and clarifying Topic 326.	This guidance replaced the 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 the standard and subsequently issued updates as of January 1, 2023. As a result of adoption of this guidance, the allowance for credit losses on loans increased by approximately $130 thousand and the allowance for credit losses on unfunded commitments increased by approximately $180 thousand, with a cumulative-effect decrease, net of tax balances, to retained earnings of approximately $320 thousand.
In March 2022, the FASB 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 modified certain disclosures beginning in 2023.

NOTE 2: LOANS AND ALLOWANCE FOR CREDIT LOSSES ON LOANS

Loans by Type

(dollars in thousands)

As of:	**September 30, 2023**		December 31, 2022	
	Amortized Cost	%	Amortized Cost	%
Real estate mortgage	**$ 1,237,593**	**65.7%**	$ 1,147,409	64.1%
Production and intermediate-term	**212,468**	**11.3%**	201,929	11.3%
Agribusiness	**294,818**	**15.7%**	313,163	17.5%
Other	**138,524**	**7.3%**	128,012	7.1%
Total	**$ 1,883,403**	**100.0%**	$ 1,790,513	100.0%

The other category is primarily composed of rural infrastructure and rural residential real estate related loans.

Throughout Note 2 accrued interest receivable on loans of $15.7 million at September 30, 2023, has been excluded from the amortized cost of loans and is presented in "Accrued interest receivable" in the Consolidated Statements of Condition.

Credit Quality

We utilize the Farm Credit Administration (FCA) Uniform Classification System to categorize loans into five credit quality categories. The categories are:

- Acceptable – loans are non-criticized loans representing the highest quality. They are expected to be fully collectible. This category is further differentiated into various probabilities of default.
- Other assets especially mentioned (Special Mention) – loans are currently collectible but exhibit some potential weakness. These loans involve increased credit risk, but not to the point of justifying a substandard classification.
- Substandard – loans exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – loans exhibit similar weaknesses as substandard loans. Doubtful loans have additional weaknesses in existing factors, conditions, and values that make collection in full highly questionable.
- Loss – loans are considered uncollectible.

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

Credit Quality of Loans at Amortized Cost[1]

(dollars in thousands) **As of September 30, 2023**	Acceptable Amount	%	Special Mention Amount	%	Substandard/ Doubtful Amount	%	Total Amount	%
Real estate mortgage	**$ 1,216,321**	**98.3%**	**$ 9,677**	**0.8%**	**$ 11,595**	**0.9%**	**$ 1,237,593**	**100.0%**
Production and intermediate-term	**199,608**	**93.9%**	**4,678**	**2.2%**	**8,182**	**3.9%**	**212,468**	**100.0%**
Agribusiness	**285,298**	**96.8%**	**5,267**	**1.8%**	**4,253**	**1.4%**	**294,818**	**100.0%**
Other	**131,002**	**94.6%**	**7,224**	**5.2%**	**298**	**0.2%**	**138,524**	**100.0%**
Total	**$ 1,832,229**	**97.3%**	**$ 26,846**	**1.4%**	**$ 24,328**	**1.3%**	**$ 1,883,403**	**100.0%**

As of December 31, 2022	Acceptable Amount	%	Special Mention Amount	%	Substandard/ Doubtful Amount	%	Total Amount	%
Real estate mortgage	$ 1,139,191	98.7%	$ 7,249	0.6%	$ 8,412	0.7%	$ 1,154,852	100.0%
Production and intermediate-term	189,810	92.7%	7,432	3.6%	7,494	3.7%	204,736	100.0%
Agribusiness	304,451	96.7%	4,345	1.4%	5,884	1.9%	314,680	100.0%
Other	125,780	98.0%	1,439	1.1%	1,113	0.9%	128,332	100.0%
Total	$ 1,759,232	97.6%	$ 20,465	1.1%	$ 22,903	1.3%	$ 1,802,600	100.0%

[1]Prior to the adoption of CECL, which was effective January 1, 2023, accruing loans included accrued interest receivable.

Delinquency

Aging Analysis of Loans at Amortized Cost[1]

(in thousands) **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
Real estate mortgage	**$ 7,635**	**$ 3,512**	**$ 11,147**	**$ 1,226,446**	**$ 1,237,593**
Production and intermediate-term	**1,243**	**1,378**	**2,621**	**209,847**	**212,468**
Agribusiness	**--**	**--**	**--**	**294,818**	**294,818**
Other	**--**	**--**	**--**	**138,524**	**138,524**
Total	**$ 8,878**	**$ 4,890**	**$ 13,768**	**$ 1,869,635**	**$ 1,883,403**

As of December 31, 2022	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total
Real estate mortgage	$ 5,168	$ 717	$ 5,885	$ 1,148,967	$ 1,154,852
Production and intermediate-term	1,542	2,270	3,812	200,924	204,736
Agribusiness	--	--	--	314,680	314,680
Other	34	--	34	128,298	128,332
Total	$ 6,744	$ 2,987	$ 9,731	$ 1,792,869	$ 1,802,600

[1]Prior to the adoption of CECL, which was effective January 1, 2023, accruing loans included accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at September 30, 2023, or December 31, 2022.

Nonaccrual Loans

Nonaccrual Loans by Type

(in thousands) As of:	**September 30, 2023**	December 31, 2022
Real estate mortgage	**$ 8,982**	$ 3,767
Production and intermediate-term	**6,909**	2,990
Agribusiness	**--**	4,414
Other	**196**	256
Total	**$ 16,087**	$ 11,427

Additional Nonaccrual Loans Information

(in thousands)	As of September 30, 2023 Amortized Cost Without Allowance	For the Nine Months Ended September 30, 2023 Interest Income Recognized
Real estate mortgage	$ 7,815	$ 316
Production and intermediate-term	1,285	11
Other	29	--
Total	$ 9,129	$ 327

Reversals 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

Included within our loans are loan modifications; some of which are granted to borrowers experiencing financial difficulty.

Loan Modifications at Amortized Cost[1]

(dollars in thousands) **Nine months ended September 30, 2023**	Interest Rate Reduction	Term Extension	Total	Percentage of Total Loans
Real estate mortgage	$ 133	$ 352	$ 485	0.0%
Production and intermediate-term	--	325	325	0.0%
Agribusiness	--	2,416	2,416	0.1%
Total	$ 133	$ 3,093	$ 3,226	0.2%
Loan modifications granted as a percentage of total loans	0.0%	0.2%	0.2%	

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

All loans modified for borrowers experiencing financial difficulty during the period presented were not past due or less than 30 days past due as of September 30, 2023.

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

Nine months ended September 30,	2023
	Interest Rate Reduction
	Financial Effect
Real estate mortgage	Reduced the weighted average contractual interest rate from 8.5% to 7.5%
	Term Extension
	Financial Effect
Real estate mortgage	Added a weighted average 21 months to the life of loans
Production and intermediate-term	Added a weighted average 12 months to the life of loans
Agribusiness	Added a weighted average 26 months to the life of loans
	Principal Forgiveness
	Financial Effect
Real estate mortgage	Reduced the amortized cost basis of loans by $54 thousand
Production and intermediate-term	Reduced the amortized cost basis of loans by $340 thousand
Agribusiness	Reduced the amortized cost basis of loans by $75 thousand

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

Additional commitments to lend to borrowers experiencing financial difficulty whose loans have been modified during the period were not material at September 30, 2023.

Allowance for Credit Losses

Changes in Allowance for Credit Losses

(in thousands) Nine months ended September 30,	2023	2022
Allowance for Credit Losses on Loans		
Balance at beginning of period	**$ 3,360**	$ 2,276
Cumulative effect of change in accounting principle	**126**	--
Provision for loan losses	**947**	1,355
Loan recoveries	**234**	273
Loan charge-offs	**(348)**	(541)
Balance at end of period	**$ 4,319**	$ 3,363
Allowance for Credit Losses on Unfunded Commitments		
Balance at beginning of period	**$ 337**	$ 33
Cumulative effect of change in accounting principle	**184**	--
Provision for losses on unfunded commitments	**(46)**	50
Balance at end of period	**$ 475**	$ 83
Total allowance for credit losses	**$ 4,794**	$ 3,446

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 is probable that all principal and interest will not be collected according to the contractual terms.

Risk Loan Information

(in thousands) As of:	December 31, 2022
Volume with specific allowance	$ 4,712
Volume without specific allowance	8,979
Total risk loans	$ 13,691
Total specific allowance	$ 957
For the nine months ended September 30,	2022
Income on accrual risk loans	$ 79
Income on nonaccrual loans	609
Total income on risk loans	$ 688
Average risk loans	$ 9,035

Note: Accruing loans include accrued interest receivable.

TDRs: Prior to the adoption of CECL, a restructuring of a loan constituted a troubled debt restructuring, also known as formally restructured, if the creditor for economic or legal reasons related to the borrower's financial difficulties granted a concession to the borrower that it would not otherwise consider. Concessions varied by program and were borrower-specific and could include interest rate reductions, term extensions, payment deferrals, or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may have been forgiven.

There were no TDRs that occurred during the nine months ended September 30, 2022. In addition, 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.

TDRs Outstanding

(in thousands) As of:		December 31, 2022
Accrual status:		
Real estate mortgage	$	745
Production and intermediate-term		--
Agribusiness		1,519
Total TDRs in accrual status	$	2,264
Nonaccrual status:		
Real estate mortgage	$	241
Production and intermediate-term		472
Agribusiness		--
Total TDRs in nonaccrual status	$	713
Total TDRs:		
Real estate mortgage	$	986
Production and intermediate-term		472
Agribusiness		1,519
Total TDRs	$	2,977

Note: Accruing loans include accrued interest receivable.

NOTE 3: CONTINGENCIES AND COMMITMENTS

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

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

Refer to Note 10 in our 2022 Annual Report for additional detail regarding contingencies and commitments.

NOTE 4: FAIR VALUE MEASUREMENTS

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

Non-Recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-Recurring Basis

(in thousands)

As of September 30, 2023	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Loans	**$ --**	**$ --**	**$ 4,913**	**$ 4,913**

As of December 31, 2022	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Loans	$ --	$ --	$ 3,943	$ 3,943

Valuation Techniques

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 judgment about current market conditions, specific issues relating to the collateral and other matters and, therefore, are classified as Level 3 fair value measurements.

NOTE 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through November 7, 2023, which is the date the Consolidated Financial Statements were available to be issued.

On November 1, 2023, we sold AgriBank participation interests and unfunded commitments totaling $28.9 million, with funded balances of $164.5 million, representing a participation interest across most of our loan 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.