Quarterly Report to Shareholders

American AgCredit

Your future grows here

as of March 31, 2023

Management's Discussion and Analysis

The following discussion summarizes the financial position and results of operations of American AgCredit, ACA and its subsidiaries (collectively "the Association") as of the first quarter of 2023. This commentary should be read with the accompanying consolidated financial statements and the related notes appearing in this report along with our 2022 Annual Report. The discussion includes significant known trends, commitments, events, or uncertainties that have impacted or are reasonably likely to impact our financial condition and results of operations. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of our Board of Directors.

Our annual and quarterly reports to shareholders are available on our website, www.agloan.com, or can be obtained free of charge by calling our corporate headquarters at (800) 800-4865. Additionally, the financial condition and results of operations of CoBank, ACB (CoBank), our funding bank, materially affect the risk associated with shareholder investments in American AgCredit. Shareholders of American AgCredit may obtain copies of CoBank's Quarterly or Annual Report to Shareholders free of charge by accessing CoBank's website, www.CoBank.com, calling (800) 542-8072, or mailing CoBank at 6340 S. Fiddlers Green Circle, Greenwood Village, CO 80111.

As a cooperative, the voting stock of American AgCredit is owned by the members we serve. Our territory extends across a diverse agricultural region that includes parts of California, Kansas, Oklahoma, Colorado, and New Mexico, as well as the states of Nevada and Hawaii.

Forward Looking Statements

Any forward-looking statements in this 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.

Merger Activity

On October 26, 2022, the boards of directors of American AgCredit, ACA and Farm Credit of New Mexico, ACA approved an agreement and plan of merger under which Farm Credit of New Mexico would merge with and into American AgCredit (the "Merger"). On April 5, 2023, FCA granted preliminary approval of the Merger. Each Association held a special meeting of stockholders on May 9, 2023, at which the stockholders of both Associations voted to approve the Merger. The regulatory 35-day reconsideration period required before FCA issues final approval is expected to expire on June 14, 2023. Assuming final FCA approval is timely received thereafter, we anticipate the Merger taking effect on July 1, 2023.

Economic Overview

The first quarter of 2023 continued a trend of slowing but still historically high inflation and smaller central bank rate increases. The overall economy is still adjusting from a previous decade-plus period of low inflation and interest rates. Amid some positive economic and stock market news, several high-profile bank failures occurred which shocked the banking and financial services sector and elevated bond prices. After 2022 logged several concurrent 75 basis point rate increases, the Federal Open Market Committee (FOMC) in 2023 made two 25 basis point rate hikes ending the quarter at a range of 4.75% to 5.00%. Longer-term rates which are less sensitive to FOMC action experienced declines amid banking sector instability. The yield on the 10-year Treasury, which highly influences commercial lending rates fell from 3.83% to 3.50%. While rates on a U.S. 30-year fixed rate mortgage for the quarter were down 10 basis points to 6.32%, they were as high as 6.73%, according to the Freddie Mac Primary Mortgage Market Survey.

Oil prices were reduced during the first quarter, however the "OPEC +" group of countries announced a sizable production cut in early April 2023 which is expected to increase prices through the year. The unemployment rate ended the quarter at 3.5%. Although it is still historically low, some publicly-traded companies have announced significant layoffs and weekly jobless claims have increased, indicating the strong jobs market may be showing signs of deflating. Domestic equity markets had varying levels of overall gains depending on the industry. The tech-heavy Nasdaq composite increased 7% during the quarter, while the Dow Jones Industrial Average increased just 0.4%.

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U.S. headline inflation ended March at an annualized rate of 5%, which continues a downward trend from a high point in June 2022 of approximately 9%. However, core inflation which excludes energy and food, experienced a slight increase due to still-high shelter inflationary pressures. Further FOMC rate increases this year remain in play among low unemployment and current inflation rates. Most, but not all, agricultural commodity prices experienced declines during the quarter, and natural gas prices, which inform both power and fertilizer prices, sharply dropped in March on above-average inventory levels coming out of winter. Lower agricultural commodity prices may be showing signs of impacting grocery store prices, as the Consumer Price Index (CPI) for food at home was reduced in March by 0.3% from the preceding month, the first decline since September 2020. U.S. Gross Domestic Product (GDP) rose at an annualized rate of 1.1%, which is a significant decrease from the 2022 year-end growth rate of 2.6%. While consumer spending was increased early in the year, it has since tapered off and was joined by overall reduced investment by businesses.

During the quarter, California experienced drought-busting precipitation and snowpack was at an all-time high, resulting in increased water allocations to farmers. The vast majority of the state's agricultural-producing regions were in no drought conditions at quarter-end. While conditions have improved in Nevada and Colorado, significant portions of those states remain in moderate drought conditions. Conditions have worsened in Kansas where a significant portion is in exceptional drought conditions.

The Association continues to be a sustainable source of credit for America's farmers and ranchers. The Association does not invest in long-term treasuries or asset-backed securities which create liquidity and duration risk exposures. The Association also currently receives only about 2% of our total funding from customer Funds Held accounts which are able to be withdrawn upon demand. Therefore, the Association is able to control substantially all of its funding. As the Farm Credit System is a government-sponsored enterprise and cooperative, the Association remains a steady partner to American agriculture.

Commodity Review and Outlook

The Association's commodity portfolio remains well-diversified. Wine grapes and wine and tree fruits and nuts lead our commodity portfolio at 16.16% and 14.13%, respectively, followed by field crops at 12.96%, dairies and dairy products at 10.91%, beef at 10.28%, and forest products at 8.43%. The top six commodities make up 72.86% of the total portfolio with the remaining 27.14% is spread over sixteen additional categories, including an "Other" category. The bulk of the Association's wine portfolio continues to be centered in the super- and ultra-premium segments of the wine market. Tree fruits and nuts consists primarily of almonds, walnuts, and other orchards in California's Central Valley and Hawaii. Field crops consist primarily of wheat, corn, soybeans, alfalfa, sorghum, and other grains.

Following is a summary of economic conditions among the Association's significant commodities:

- **Wine grapes and wine:** The final 2022 crush was below average for a third consecutive year and the smallest since 2011. The crush has averaged just under 3.5 million tons over the last three years, which compares to an average of more than four million for the prior three years. The successive short harvests have pulled the California grape market into a more balanced position, which has in turn stimulated appreciation in grape prices. The average price paid for a ton of California wine grapes rose by 5% in 2022 to $944. Red grape prices jumped 7%, while white varietal prices rose 1%. The smaller increase for white grapes was partly attributable to a redistribution of sales from the more expensive California coast to the interior. Growth in wine sales has been progressively stronger at successively higher price points, and grape price appreciation in Napa Valley has outpaced that of the other coastal regions by a wide margin. Recent grape price gains have been driven more by depressed supply than growth in consumer demand, particularly at the value end of the market. Recent winter storms have substantially contributed toward alleviating the severe drought conditions that have depressed grape yields in many parts of California. This could result in larger crops over the next several years, assuming continued cooperative weather. While some interior vineyards have been ripped out, these removals have been offset to a certain extent by the addition of bearing acreage in other parts of the state. Excess supply will subdue prices, or at a minimum, flatten appreciation rates in affected market segments. Higher interest rates, variability in grape production, and longer-term trends in wine consumption have raised concerns over vineyard valuations in Napa and Sonoma counties.

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- **Tree fruits and nuts:** Tree fruit and nut exports have declined from year-ago levels. Exchange rates, supply-chain disruptions and general costs of transportation have played a substantial role in the decline. Although California's record precipitation through March provides relief from drought concerns longer-term, rains in February interfered with the pollination of buds critical to nut and fruit development. As a result, spot prices for many tree nuts have experienced double digit percentage increases the first quarter of 2023. A short crop may right-size existing inventories after prior years' historic yields, especially for almonds. Domestic demand is also showing weakness alongside macroeconomic conditions. Exports have been hindered by supply chain issues, as shippers had difficulty finding timely transportation and access to ports. Moreover, exchange rates have significantly increased further driving up the cost of U.S. almonds for importing countries. There has been collaboration between the nut and transportation industries and government agencies have reportedly offered relief to the tight supply chain. These industry and government efforts will be vital in moving both the old and new crop of almonds amid continued supply chain pressures.

- **Field crops:** The global situation for field crops remains dominated by uncertainty about the future of the grain corridor agreement in the Black Sea, volatile energy and fertilizer costs, drought in the Midwest, and relatively tight feed grain inventories. The fuel and fertilizer situation is unlikely to improve as winter weather and the Ukrainian war prevent the world from building distillate fuel oil inventory oil. The net of these factors involving Russia and Ukraine is supportive to certain U.S. grain prices. Early estimates of $6.00-breakeven prices for 2023 corn and $14.00-breakeven prices for soybeans make it probable that 2023 will be a challenging year. Wheat prices continue a downward retreat from a high reached in May 2022 and corn prices from a high reached in September 2022. With cotton prices much weaker than the previous year, corn and soybean acreage should increase, even with firm prices for wheat and hay. The relative price for new crop corn has increased compared to new crop soybeans, such that more of those acres may flow to corn. In the U.S., the dominant factors for old crop corn remain such as the very difficult basis environment and weak exports. New crop prospects are dominated by input prices and a breakeven environment that will likely lean toward more corn acres than soybean.

- **Dairy:** Domestic demand will significantly impact the dairy industry in 2023 as macroeconomic pressures and recession threaten to slow overall activity leading to more downside risk in mid-2023. Yield increases per cow are driving production growth and demand is expected to keep pace with a supply increase in 2023. The U.S. milk cow herd, constrained by base programs and other buyer limits on taking additional milk, is expected to remain stable. Dairy producers in areas of California experienced difficulties due to precipitation and flooding causing pasture complications. Efficiency gains, especially in feed and labor, will take priority over adding cows in an environment of lingering high costs. Under normal conditions, a 2% year-over-year increase in milk production would be stronger than the long-term trend and weigh on markets. The All-Milk price was overall lower in the first quarter, especially in the Midwest. Recently, cheese prices had surged lifting Class III futures. European Union (EU) production is returning to growth territory, meaning the U.S. will once again find itself competing to hold on to the market share it gained while the EU struggled with milk production. U.S. dairy commodity prices are at or near the high end of the global price range in recent weeks, which could add to future headwinds.

- **Beef:** Nationwide, tighter cattle supplies are expected to continue, although retail beef demand has so far been robust. As much of California has exited drought conditions, rain has been beneficial for cow feed acres. There are also actual or potential flood difficulties depending on the location as cattle need to be moved to higher ground. Areas still in drought, such as Kansas, will experience higher feed costs caused by poorer forage and hay conditions. Inflationary trends and two years of declining consumer real-wage growth are increasing demand for value-oriented meats. Spreads between wholesale prices paid by grocers and retail prices paid by consumers, which widened last year to compensate for higher retail labor and transportation costs, could decline through summer and continue a shift in buying trends to value cuts. The percentage of beef which has been graded as choice or above, is also declining. Overall cattle supplies are resulting in increasing cattle prices. The Producer Price Index for slaughter cattle has increased by 16.3% on a seasonally-adjusted year-over-year basis. The demand from the summer grilling season will likely determine the level of success for the beef industry for the remainder of the year.

- **Forest products:** The sentiment in the forest product industry is restrained as the economic backdrop has dampened. Housing starts in March were down about 17% from the prior year, led chiefly by single family units which were down nearly 28 percent. The decline in single family units is largely thought to reflect the sharp increase in the 30-year fixed rate mortgage, which has stayed above 6% since mid-September 2022. Starts for buildings with 5 or more units were up about 6% in March from the previous year. Total spending on construction declined in February but was about 5% above year ago levels. Prices for most forest products, such as framing lumber and structural panels, have settled above their long-term averages. However, other prices are closer to their long-term averages such as oriented strand board. Prices for most pulp and kraft have also declined from the recent peaks but remain elevated. Overall strong product prices have helped the industry to deal with high input prices particularly labor costs, and snowpack in certain geographic regions.

Loan Portfolio

The total loan and lease balance was $17.5 billion at March 31, 2023, an increase of $86.3 million from $17.4 billion at December 31, 2022. The increase was caused both by draws on existing facilities and some new originations, partially offset by anticipated seasonal loan repayments. On a year-over-year basis, loans increased by $1.3 billion when compared to March 31, 2022, resulting in a growth rate of 7.85%. Credit quality remains strong at 96.46% as of March 31, 2023, compared to 97.13% as of December 31, 2022. Credit quality is a measurement of loans classified as either “Acceptable” or “Other Assets Especially Mentioned” divided by total loans under Farm Credit Administration’s Uniform Classification System.

In addition to the $17.5 billion of loans and leases reported on our balance sheet, we serviced an additional $6.8 billion of loans for other institutions as of March 31, 2023.

Nonearning Assets

Nonaccrual loans increased by $33.1 million to $205.3 million at March 31, 2023, compared to $172.2 million at December 31, 2022. The change in nonaccrual loans was primarily due to transfers to nonaccrual status and disbursements on nonaccrual loans of $50.2 million, offset by $9.6 million year-to-date repayments on nonaccrual loans, charge-offs of nonaccrual loans of $7.0 million, and loans reinstated to accrual status of $0.4 million. Nonaccrual loans represented 1.17% of total loans at the end of March 31, 2023, compared to 0.50% at March 31, 2022, and 0.99% at December 31, 2022.

Allowance for Credit Losses

The allowance for credit losses is composed of the allowance for credit losses on loans and the allowance for credit losses on unfunded commitments. The allowance for credit losses on loans is an estimate of expected credit losses on loans in our portfolio as of the financial statement date. The appropriate level of allowance for loan losses is determined based on periodic evaluation of factors such as loan loss history, portfolio quality, estimated collateral values, and current economic and environmental conditions. Total allowance for credit losses was $23.3 million at March 31, 2023, which included a $22.3 million allowance for loan losses and a $1.0 million reserve for unfunded commitments. The allowance for credit losses was decreased on January 1 by $31.6 million due to the adoption of the new credit loss accounting guidance (CECL). See Note 1 to the Consolidated Financial Statements.

Financial Condition and Results of Operations

Net income for the three months ended March 31, 2023, was $98.3 million compared to $99.2 million for the same period last year, a decrease of $0.9 million. The change in net income was primarily due to the following reasons:

- Net interest income increased by $15.9 million year-over-year due to growth in accrual loan volume aided by a slightly higher net interest margin. The Association’s weighted average interest rate on interest-bearing liabilities was 3.66% and 0.85% as of March 31, 2023 and 2022, respectively.

- The Association recorded a provision for credit losses of $8.3 million through March 31, 2023, as compared to a reversal of credit losses of $5.7 million a year ago. The prior year reversal was primarily due to changes in assumptions in the provision estimate made in March 2022. The current year provision is primarily a result of the Association's increasing loan portfolio and some credit quality decline.
- Non-interest income increased by $2.1 million year-over-year. Overall, patronage income, crop insurance commissions contained within financially related services, and servicing fees and late charges increased, while loan origination fees caused by fewer loan originations in a rising interest rate environment decreased.
- FCSIC insurance, a component of noninterest operating expense, increased by $1.2 million when compared to March 2022. The FCSIC board voted to set the insurance premium assessment rate on adjusted insured debt to 18 basis points for 2023. In 2022, premiums were originally set to 16 basis points and in June adjusted to 20 basis points retroactive to January 1.
- Overall, non-interest operating expenses increased by $4.9 million compared to the same period last year, primarily caused by the FCSIC premium increases, increases in salaries and benefits due to higher headcount throughout 2022, and higher travel and lodging expenses compared to the first quarter of 2022 when travel still was subdued due to the pandemic.

The major components of change in net income are summarized as follows (dollars in thousands):

	For the Three Months Ended		Increase (Decrease) in
	March 31, 2023	**March 31, 2022**	**Net Income**
Net interest income	$132,592	$116,695	$15,897
(Provision for)/Reversal of credit losses	(8,269)	5,703	(13,972)
Patronage income	29,732	27,747	1,985
Other income, net	4,867	4,764	103
Non-interest expenses	(60,668)	(55,751)	(4,917)
Net income	**$98,254**	**$99,158**	**$(904)**

The following table shows the Association's year-to-date annualized return on average assets, return on equity, and net interest margin.

	March 31,	
	2023	**2022**
Return on average assets	2.14%	2.34%
Return on common equity	15.11%	16.49%
Return on total equity	13.55%	14.66%
Net interest margin	3.05%	2.91%

Liquidity and Funding

Liquidity is necessary to meet our financial obligations, such as paying our note with CoBank, funding loans and other commitments, and funding operations in a low-cost manner. Our liquidity policy is intended to manage short-term cash flow, maximize debt reductions, and liquidate nonearning assets. Our direct loan with CoBank, cash on hand, and borrower loan repayments provide adequate liquidity to fund our ongoing operations and other commitments. The Association also received funding from preferred stock, subordinated debt, and funds held accounts.

Shareholders' Equity

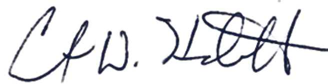
The Association's capital position remains strong. Total shareholders' equity was $2.9 billion at the end of the first quarter, an increase of $127.3 million from $2.8 billion at December 31, 2022. The increase in capital is primarily the result of the Association's year-to-date net

income. The Association was in compliance with all capital ratio requirements at March 31, 2023. The Association's strong earnings and capital position enable us to effectively serve our mission and our customers and support our ability to maintain our cash patronage distribution program and pay preferred stock dividends.

Certification

The undersigned certify that they have reviewed this report and that it has been prepared in accordance with all applicable statutory and/or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of his knowledge and belief.

Gary Harshberger
Chairman



Curt Hudnutt
Chief Executive Officer

Jerry Rose
Chief Strategy and Financial Officer

May 10, 2023

Consolidated Statements of Condition *(dollars in thousands)*

	March 31, 2023	December 31, 2022
	(Unaudited)	*(Audited)*
ASSETS		
Loans	$17,518,157	$17,431,808
Less: allowance for credit losses on loans	(22,290)	(49,448)
Net loans	**17,495,867**	**17,382,360**
Cash	22,240	58,269
Accrued interest receivable	161,920	179,489
Investment in CoBank	460,416	457,636
Investment in AgDirect	25,100	26,521
Premises and equipment, net	110,080	111,254
Other property owned	-	4,160
Other assets	258,326	281,862
Total assets	**$18,533,949**	**$18,501,551**
LIABILITIES		
Notes payable to CoBank	$14,763,844	$14,769,000
Subordinated debt	197,799	197,757
Funds Held accounts	309,692	296,137
Accrued interest payable	66,124	58,201
Cash patronage and preferred stock dividends payable	63,192	185,747
Reserve for unfunded commitments	1,056	3,900
Other liabilities	183,628	169,505
Total liabilities	**15,585,335**	**15,680,247**
SHAREHOLDERS' EQUITY		
Preferred stock	300,000	300,000
Common stock and participation certificates	10,573	10,604
Additional paid-in capital	677,110	677,110
Unallocated retained surplus	1,976,349	1,850,386
Accumulated other comprehensive loss	(15,418)	(16,796)
Total shareholders' equity	**2,948,614**	**2,821,304**
Total liabilities and shareholders' equity	**$18,533,949**	**$18,501,551**

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

Consolidated Statements of Comprehensive Income *(dollars in thousands)*

(Unaudited)	For the Three Months Ended March 31,	
	2023	**2022**
INTEREST INCOME		
Loans	$273,561	$151,060
Total interest income	**273,561**	**151,060**
INTEREST EXPENSE		
Notes payable CoBank	136,585	32,030
Subordinated notes	1,729	1,729
Funds Held and other interest	2,655	606
Total interest expense	**140,969**	**34,365**
Net interest income	**132,592**	**116,695**
(Provision for)/Reversal of credit losses	(8,269)	5,703
Net interest income after provision for credit losses	**124,323**	**122,398**
NON-INTEREST INCOME		
Patronage income from CoBank	19,421	19,337
Patronage income from other Farm Credit institutions	9,638	7,882
Patronage income from AgDirect	673	528
Loan origination fees	1,800	2,174
Servicing fees and late charges	772	504
Financially related services	1,095	791
Miscellaneous	1,200	1,295
Total non-interest income	**34,599**	**32,511**
NON-INTEREST EXPENSES		
Salaries and benefits	37,110	35,907
Occupancy and equipment expense	2,495	2,614
Insurance fund premiums	6,402	5,183
Supervisory and examination expense	923	770
Other operating expenses	13,738	11,277
Total non-interest expenses	**60,668**	**55,751**
Income before income taxes	98,254	99,158
Net income	**$98,254**	**$99,158**
COMPREHENSIVE INCOME		
Actuarial gain in retirement obligation	1,378	1,052
Total comprehensive income	**$99,632**	**$100,210**

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

Consolidated Statements of Changes in Shareholders' Equity *(dollars in thousands)*

(Unaudited)	Common Stock and Participation Certificates	Preferred Stock	Additional Paid-in Capital	Unallocated Retained Surplus	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at December 31, 2021	**$10,495**	**$300,000**	**$677,110**	**$1,694,971**	**$(19,121)**	**$2,663,455**
Comprehensive income				99,158	1,052	100,210
Stock/participation certificates issued	288					288
Stock/participation certificates retired	(204)					(204)
Preferred stock dividends				(3,938)		(3,938)
Balance at March 31, 2022	**$10,579**	**$300,000**	**$677,110**	**$1,790,191**	**$(18,069)**	**$2,759,811**
Balance at December 31, 2022	**$10,604**	**$300,000**	**$677,110**	**$1,850,386**	**$(16,796)**	**$2,821,304**
Comprehensive income				98,254	1,378	99,632
Stock/participation certificates issued	190					190
Stock/participation certificates retired	(221)					(221)
Preferred stock dividends				(3,937)		(3,937)
Cumulative effect adjustment				31,646		31,646
Balance at March 31, 2023	**$10,573**	**$300,000**	**$677,110**	**$1,976,349**	**$(15,418)**	**$2,948,614**

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

Notes to the Consolidated Financial Statements *(dollars in thousands, except as noted.)*

(Unaudited)

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of American AgCredit, ACA (Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2022, are contained in the 2022 Annual Report to Shareholders (2022 Annual Report). The financial statements were prepared under the oversight of the audit committee of the board of directors.

The accompanying unaudited first quarter 2023 financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2022, as contained in the 2022 Annual Report.

In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods have been made. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2023. Descriptions of the significant accounting policies are included in the 2022 Annual Report. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

Recently Adopted or Issued Accounting Pronouncements

The Association adopted the Financial Accounting Standards Board (FASB) guidance entitled "Measurement of Credit Losses on Financial Instruments" and other subsequently issued accounting standards updates related to current expected credit losses (CECL) on January 1, 2023. This guidance replaced the current incurred loss impairment methodology with a single allowance framework for financial assets carried at amortized cost and certain off-balance sheet credit exposures. This guidance requires management to consider in its estimate of the allowance for credit losses (ACL) relevant historical events, current conditions and reasonable and supportable forecasts that affect the collectability of the assets. The ACL comprises the allowance for credit losses on loans (ACLL) and the reserve for unfunded commitments, which is presented on the balance sheet in liabilities.

Also adopted effective January 1, 2023, was the updated guidance entitled "Financial Instruments – Credit Losses: Troubled Debt Restructurings and Vintage Disclosure." This guidance requires the creditor to determine whether a modification results in a new loan or a continuation of an existing loan, among other disclosures, specific to modifications with borrowers that are experiencing financial difficulties. The update eliminated the accounting guidance for troubled debt restructurings by creditors. The update also requires disclosure of current period gross write-offs by year of origination for financing receivables and net investments in leases.

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

(in millions)	December 31, 2022	CECL Adoption Impact	January 1, 2023
Assets:			
Allowance for credit losses on loans	$(49.4)	$28.4	$(21.0)
Deferred tax assets	$9.3	$(3.1)	$6.2
Deferred tax valuation allowance	$(4.2)	$3.1	$(1.1)
Liabilities:			
Reserve for unfunded commitments	$3.9	$(3.2)	$0.7
Retained earnings:			
Unallocated retained surplus, net of tax	$1,850.4	$31.6	$1,882.0

Loans and Allowance for Credit Losses

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

Nonaccrual Loans

Nonaccrual loans are loans for which there is reasonable doubt that all principal and interest will not be collected according to the original contractual terms and are generally considered substandard or doubtful, which is in accordance with the loan risk rating model as described in Note 2. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is modified or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

Consistent with prior practice, loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection), circumstances indicate that collection of principal and interest is in doubt or legal action, including foreclosure or other forms of collateral conveyance, has been initiated to collect the outstanding principal and interest. At the time a loan is placed in nonaccrual status, accrued interest that is considered uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

When loans are in nonaccrual status, interest payments received in cash are generally recognized as interest income if the collectability of the loan principal is fully expected and certain other criteria are met. Otherwise, payments received on nonaccrual loans are applied against the recorded investment in the loan asset. Nonaccrual loans are returned to accrual status if all contractual principal and interest is current, the borrower is fully expected to fulfill the contractual repayments terms, and after remaining current as to principal and interest for a sustained period or have a recent repayment pattern demonstrating future repayment capacity to make on-time payments. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer should first be recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

Accrued Interest Receivable

The Association elected to continue classifying accrued interest on loans in accrued interest receivable and not as part of loans on the Consolidated Statements of Condition. The Association also elected to not estimate an allowance for losses on interest receivable balances because the nonaccrual policies in place provide for the accrual of interest to cease on a timely basis when all contractual amounts are not expected.

Loan Modifications to Borrowers Experiencing Financial Difficulty

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

Collateral Dependent Loans

Collateral dependent loans are loans secured by collateral, including but not limited to agricultural real estate, crop inventory, equipment, and livestock. CECL requires an entity to measure the expected credit losses based on fair value of the collateral at the reporting date when the entity determines that foreclosure is probable. Additionally, CECL allows a fair value practical expedient as a measurement approach for loans when the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulties. Under the practical expedient measurement approach, the expected credit losses are based on the difference between the fair value of the collateral less estimated costs to sell and the amortized cost basis of the loan.

Allowance for Credit Losses

Beginning January 1, 2023, the ACL represents the estimated current expected credit losses over the remaining contractual life of financial assets measured at amortized cost and certain off-balance sheet credit exposures. The ACL takes into consideration relevant information about past events, current conditions, and reasonable and supportable macroeconomic forecasts of future conditions. The contractual term excludes expected extensions, renewals, and modifications unless the extension or renewal options are not unconditionally cancellable. The ACL comprises the allowance for credit losses on loans (ACLL) and the reserve for unfunded commitments, which is presented on the balance sheet in other liabilities.

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

Methodology for Allowance for Credit Losses on Loans

The ACLL represents management's estimate of credit losses over the remaining expected life of loans.

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

For nonaccrual loans, the collateral-dependent practical expedient is used, which is defined as fair value of the collateral less selling costs. The reserve is calculated as the amount the net receivable value (NRV) is less than the exposure at default.

In estimating the component of the ACLL that shares common risk characteristics, loans are segregated into eight industry groups and evaluated with models specific to each industry. The models include macro-economic variables as well as loan-level variables, such as internal risk ratings. The allowance is determined by modeling an undiscounted cash flow method. Using this approach, contractual features of the loans combined with loan prepayment, loan probability of default, and loan recovery given default models are used to project future principal and interest cash flows over the life of the loan given forecasted interest rates and economic variables. For each individual loan record, the pooled allowance is then calculated as the amount of lifetime defaults less lifetime recoveries.

The Association uses three probability-weighted deterministic scenarios from Oxford Economics over a reasonable and supportable forecast period of 10 years. The economic forecasts incorporate macroeconomic variables, including Treasury rates, corporate bond spreads, as well as net farm income and agricultural commodity prices, along with other economic factors which have been shown to influence loan performance. Also considered are loan and borrower characteristics, such as internal risk ratings, vintage, size, and history of late payments, among others. Subsequent to the forecast period, the Association reverts the macro-economic variables to long-term values using a mean reversion analysis to inform the cash flows for the remaining contractual life of the loan portfolio.

In addition to the quantitative calculation, the Association considers the imprecision inherent in the process and methodology, emerging risk assessments and other subjective factors, which may lead to a qualitative adjustment to the modeled ACLL results. This component of the ACLL also considers factors for each loan pool to adjust for differences between the historical period used to calculate historical default and loss severity rates and expected conditions over the remaining lives of the loans in the portfolio related to:

- national, regional and local economic business conditions and developments that affect the collectability of the portfolio, including the condition of various markets and/or commodities;
- the quality of the loan review and process;
- the existence and effect of any concentrations of credit, including large loan concentrations, and changes in the level of such concentrations; and
- the effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio.

Prior to January 1, 2023, the allowance for loan losses was maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance was based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic and environmental conditions, loan portfolio composition, collateral value,

portfolio quality, current production conditions, and prior loan loss experience. The allowance for loan losses encompassed various judgments, evaluations and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty, imprecision, and variability. Changes in the overall global economy, agricultural economy, and environment, and their impact on borrower repayment capacity would cause various judgments, evaluations and appraisals to change over time. Management considered the following macro-economic factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

Reserve for Unfunded Commitments

The Association evaluates the need for a reserve for credit losses on unfunded commitments under CECL and, if required, an amount is recognized and included in liabilities on the Consolidated Statements of Condition. The amount of expected losses is determined by assuming a full utilization on the commitment and then applying the same undiscounted cash flow approach used for the pooled loans. No reserve for credit losses is recorded for commitments that are unconditionally cancellable.

NOTE 2 – LOANS AND ALLOWANCE FOR LOAN LOSSES

Components of loans in the Consolidated Statements of Condition are as follows:

	March 31, 2023		December 31, 2022	
	Amount	**Percentage**	**Amount**	**Percentage**
Real estate mortgage	$9,723,369	55.6%	$9,716,259	55.7%
Production and intermediate-term	3,495,273	20.0%	3,654,915	21.1%
Agribusiness	3,615,737	20.6%	3,474,462	19.9%
Rural infrastructure	604,338	3.4%	526,095	3.0%
Rural residential real estate	1,419	0.0%	1,492	0.0%
Agricultural export finance	78,021	0.4%	58,585	0.3%
Total loans	**$17,518,157**	**100.0%**	**$17,431,808**	**100.0%**

PARTICIPATION INTERESTS

The Association, in the normal course of business, purchases and sells participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration regulations. All loans sold to other parties are sold without recourse.

The following table presents information regarding participations purchased and sold at March 31, 2023. The Association had no participations purchased from or sold to non-Farm Credit institutions at March 31, 2023.

	Other Farm Credit Institutions	
	Participations	
	Purchased	**Sold**
Real estate mortgage	$692,951	$2,271,033
Production and intermediate-term	871,127	1,166,421
Agribusiness	2,110,296	3,174,349
Rural infrastructure	574,406	160,790
Agricultural export finance	78,021	-
Total	**$4,326,801**	**$6,772,593**

Credit Quality

Credit risk arises from the potential inability of an obligor to meet its payment obligation and exists in our outstanding loans, letters of credit and unfunded loan commitments. The Association manages credit risk associated with its lending activities on an individual and portfolio basis through the application of sound lending and underwriting standards and policies, approved by its board of directors. The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, financial position, and collateral, which includes an analysis of credit scores for smaller loans. Repayment capacity focuses on the borrower's ability to repay the loan based on cash flows from operations or other sources of income, including off-farm income. Real estate mortgage loans must be secured by first liens on the real estate (collateral). As required by Farm Credit Administration regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85% of the original appraised value of the property taken as security or up to 97% of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Loans other than real estate mortgage may be made on a secured or unsecured basis.

The Association uses a two-dimensional risk rating model based on an internally generated combined System risk rating guidance and actual Association loss history that incorporates a 14-point probability of default rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default. Probability of default is the probability that a borrower will experience a default during the life of the loan. The loss given default is management's estimate as to the anticipated principal loss on a specific loan assuming default occurs over the next 12 months. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower or the loan is classified nonaccrual. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship. The institution reviews, at least on an annual basis, or when a credit action is taken, the probability of default category.

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

- **Acceptable:** Assets are expected to be fully collectible and represent the highest quality,
- **Other Assets Especially Mentioned (OAEM):** Assets are currently collectible but exhibit some potential weakness,
- **Substandard:** Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan,
- **Doubtful:** Assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable, and
- **Loss:** Assets are considered uncollectible.

A loan is considered collateral dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The collateral dependent loans are primarily real estate mortgage and rural residential real estate loans. The extent to which collateral secures certain loans is primarily based on the calculated Loan-to-Value ratio.

The following table presents current-period gross charge-offs by year of origination as well as credit quality indicators by loan type and the related principal balance by year of origination:

Notes to the Consolidated Financial Statements *(continued)*

	Term Loans Amortized Cost by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	
	2023	**2022**	**2021**	**2020**	**2019**	**Prior**			**Total**
Real Estate Mortgage:									
Acceptable	$272,414	$1,573,369	$1,704,065	$1,456,941	$935,208	$2,743,581	$419,029	$74,250	$9,178,857
OAEM	1,955	14,273	46,507	44,255	20,630	81,434	9,651	2,056	220,761
Substandard/Doubtful	8,476	38,003	24,381	33,159	91,473	109,892	685	17,682	323,751
Total	**282,845**	**1,625,645**	**1,774,953**	**1,534,355**	**1,047,311**	**2,934,907**	**429,365**	**93,988**	**9,723,369**
Production and intermediate-term:									
Acceptable	162,904	417,360	347,129	262,760	127,379	242,790	1,639,839	694	3,200,855
OAEM	62	22,931	3,189	6,319	32,012	1,808	76,713	186	143,220
Substandard/Doubtful	115	20,657	13,153	7,287	42,364	5,571	49,059	12,992	151,198
Total	**163,081**	**460,948**	**363,471**	**276,366**	**201,755**	**250,169**	**1,765,611**	**13,872**	**3,495,273**
Current period gross charge-offs	44	1,854	47	-	3,764	43	597	41	6,390
Agribusiness:									
Acceptable	187,943	876,880	738,979	326,004	289,630	484,505	472,776	11,216	3,387,933
OAEM	-	22,070	9,230	3,649	16,194	27,001	4,949	-	83,093
Substandard/Doubtful	24,889	259	25,061	59,814	6,924	14,437	13,327	-	144,711
Total	**212,832**	**899,209**	**773,270**	**389,467**	**312,748**	**525,943**	**491,052**	**11,216**	**3,615,737**
Current period gross charge-offs	-	-	466	-	7	-	182	-	655
Rural infrastructure:									
Acceptable	147,498	129,037	160,595	92,306	27,718	45,494	1,690	-	604,338
Total	**147,498**	**129,037**	**160,595**	**92,306**	**27,718**	**45,494**	**1,690**	**-**	**604,338**
Rural residential real estate:									
Acceptable	-	-	227	236	-	891	-	-	1,354
Substandard/Doubtful	-	-	-	-	-	65	-	-	65
Total	**-**	**-**	**227**	**236**	**-**	**956**	**-**	**-**	**1,419**
Agricultural export finance:									
Acceptable	-	26,588	8,733	-	-	15,002	12,206	15,492	78,021
Total	**-**	**26,588**	**8,733**	**-**	**-**	**15,002**	**12,206**	**15,492**	**78,021**
Total loans:									
Acceptable	770,759	3,023,234	2,959,728	2,138,247	1,379,935	3,532,269	2,545,540	101,652	16,451,358
OAEM	2,017	59,274	58,926	54,223	68,836	110,243	91,313	2,242	447,074
Substandard/Doubtful	33,480	58,919	62,595	100,260	140,761	129,965	63,071	30,674	619,725
Total Loans	**$806,256**	**$3,141,427**	**$3,081,249**	**$2,292,730**	**$1,589,532**	**$3,772,477**	**$2,699,924**	**$134,568**	**$17,518,157**
Total current period gross charge-offs	**$44**	**$1,854**	**$513**	**$-**	**$3,771**	**$43**	**$779**	**$41**	**$7,045**

Notes to the Consolidated Financial Statements *(continued)*

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

	As of March 31, 2023						
	Acceptable		OAEM		Substandard/Doubtful		Total
	Amount	%	Amount	%	Amount	%	Amount
Real estate mortgage	$9,178,857	94.4%	$220,761	2.3%	$323,751	3.3%	$9,723,369
Production and intermediate-term	3,200,855	91.6%	143,220	4.1%	151,198	4.3%	3,495,273
Agribusiness	3,387,933	93.7%	83,093	2.3%	144,711	4.0%	3,615,737
Rural infrastructure	604,338	100.0%	-	0.0%	-	0.0%	604,338
Rural residential real estate	1,354	95.4%	-	0.0%	65	4.6%	1,419
Agricultural export finance	78,021	100.0%	-	0.0%	-	0.0%	78,021
Total	**$16,451,358**	**93.9%**	**$447,074**	**2.6%**	**$619,725**	**3.5%**	**$17,518,157**

Accrued interest receivable on loans of $161.9 million at March 31, 2023, have been excluded from the amortized cost of loans and reported separately in the Consolidated Statements of Condition. The Association wrote off accrued interest receivable of $734 thousand for the three months ended March 31, 2023.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type prior to the adoption of CECL:

	As of December 31, 2022[1]						
	Acceptable		OAEM		Substandard/Doubtful		Total
	Amount	%	Amount	%	Amount	%	Amount
Real estate mortgage	$9,464,574	96.2%	$155,062	1.5%	$222,705	2.3%	$9,842,341
Production and intermediate-term	3,482,068	94.4%	76,477	2.1%	130,862	3.5%	3,689,407
Agribusiness	3,273,657	93.7%	69,620	2.0%	148,715	4.3%	3,491,992
Rural infrastructure	526,913	100.0%	-	0.0%	-	0.0%	526,913
Rural residential real estate	1,441	95.5%	-	0.0%	68	4.5%	1,509
Agricultural export finance	59,135	100.0%	-	0.0%	-	0.0%	59,135
Total	**$16,807,788**	**95.4%**	**$301,159**	**1.7%**	**$502,350**	**2.9%**	**$17,611,297**

[1] Prior to the adoption of CECL on January 1, 2023, loans were presented with accrued interest receivables

NONPERFORMING ASSETS

The following table reflects nonperforming assets, which consist of nonaccrual loans and other property owned and related credit quality statistics:

	March 31, 2023
Nonaccrual loans:	
Real estate mortgage	$93,495
Production and intermediate-term	62,644
Agribusiness	49,099
Rural residential real estate	65
Total nonaccrual loans	**205,303**
Other property owned	-
Total nonperforming assets	**$205,303**
Nonaccrual loans as a percentage of total loans	1.17%
Nonperforming assets as a percentage of total loans and other property owned	1.17%
Nonperforming assets as a percentage of capital	6.96%

Impaired assets (including related accrued interest) prior to the adoption of CECL are as follows:

	December 31, 2022
Nonaccrual loans:	
Real estate mortgage	$85,239
Production and intermediate-term	34,208
Agribusiness	52,651
Rural residential real estate	68
Total nonaccrual loans	**172,166**
Accruing restructured loans:	
Real estate mortgage	6,199
Production and intermediate-term	14
Agribusiness	1,786
Total accruing restructured loans	**7,999**
Total impaired loans	**180,165**
Other property owned	4,160
Total impaired assets	**$184,325**

Notes to the Consolidated Financial Statements *(continued)*

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

	March 31, 2023			Interest Income Recognized for the Three Months Ended March 31, 2023
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	
Nonaccrual loans:				
Real estate mortgage	$299	$93,196	$93,495	$721
Production and intermediate-term	18,755	43,889	62,644	94
Agribusiness	42,510	6,589	49,099	53
Rural residential real estate	-	65	65	-
Total nonaccrual loans	**$61,564**	**$143,739**	**$205,303**	**$868**

Impaired loan information prior to the adoption of CECL is as follows:

	At March 31, 2022			For the Three Months Ended March 31, 2022	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans:					
with a related allowance for credit losses	$4,525	$4,850	$2,809	$3,975	$4
with no related allowance for credit losses	88,169	112,366	-	73,287	500
Total	**$92,694**	**$117,216**	**$2,809**	**$77,262**	**$504**

DELINQUENCY

The following tables provide an age analysis of past due loans at amortized cost by portfolio segment.

March 31, 2023	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$80,516	$9,010	$89,526	$9,633,843	$9,723,369	$-
Production and intermediate-term	24,742	5,016	29,758	3,465,515	3,495,273	-
Agribusiness	859	-	859	3,614,878	3,615,737	-
Rural infrastructure	-	-	-	604,338	604,338	-
Rural residential real estate	-	-	-	1,419	1,419	-
Agricultural export finance	-	-	-	78,021	78,021	-
Total	**$106,117**	**$14,026**	**$120,143**	**$17,398,014**	**$17,518,157**	**$-**

Notes to the Consolidated Financial Statements *(continued)*

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

December 31, 2022	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans
Real estate mortgage	$19,560	$6,956	$26,516	$9,815,825	$9,842,341
Production and intermediate-term	16,820	2,123	18,943	3,670,464	3,689,407
Agribusiness	1,133	-	1,133	3,490,859	3,491,992
Rural infrastructure	11,810	-	11,810	515,103	526,913
Rural residential real estate	-	-	-	1,509	1,509
Agricultural export finance	-	-	-	59,135	59,135
Total	**$49,323**	**$9,079**	**$58,402**	**$17,552,895**	**$17,611,297**

Allowance for Credit Losses

The credit risk rating methodology is a key component of the allowance for credit losses evaluation and is incorporated into loan underwriting standards and internal lending limits. In addition, borrower and commodity concentration lending and leasing limits have been established to manage credit exposure. The regulatory limit to a single borrower or lessee is 15% of the Association's lending and leasing limit base but the board of directors has established more restrictive lending limits.

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

	Real Estate Mortgage	Production and Intermediate-term	Agri-business	Rural Infra-structure	Agricultural Export Finance	Total
Allowance for loan losses:						
Balance at December 31, 2022	$11,115	$15,672	$22,122	$457	$82	$49,448
Cumulative effect of change in accounting principle	(8,004)	(9,422)	(10,459)	(457)	(82)	(28,424)
Balance at January 1, 2023	**3,111**	**6,250**	**11,663**	**-**	**-**	**21,024**
Charge-offs	-	(6,390)	(654)	-	-	(7,044)
Recoveries	4	345	70	-	-	419
Provision for/(Reversal of) loan losses	362	9,136	(1,607)	-	-	7,891
Balance at March 31, 2023	**$3,477**	**$9,341**	**$9,472**	**$-**	**$-**	**$22,290**
Allowance for unfunded commitments:						
Balance at December 31, 2022	$200	$2,267	$1,375	$52	$6	$3,900
Cumulative effect of change in accounting principle	(108)	(2,017)	(1,039)	(52)	(6)	(3,222)
Balance at January 1, 2023	**92**	**250**	**336**	**-**	**-**	**678**
Provision for unfunded commitments	(8)	195	191	-	-	378
Balance at March 31, 2023	**$84**	**$445**	**$527**	**$-**	**$-**	**$1,056**
Total allowance for credit losses	**$3,561**	**$9,786**	**$9,999**	**$-**	**$-**	**$23,346**

Notes to the Consolidated Financial Statements *(continued)*

ALLOWANCE FOR LOAN LOSSES

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

A summary of changes in the allowance for loan losses and period-end recorded investment in loans at December 31, 2022, is as follows:

	Allowance for Loan Losses			Recorded Investments in Loans Outstanding		
	Balance at Dec. 31, 2022	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	**Balance at Dec. 31, 2022**	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate mortgage	$11,115	$45	$11,070	$9,842,341	$91,438	$9,750,903
Production and intermediate-term	15,671	2,181	13,490	3,689,407	34,222	3,655,185
Agribusiness	22,123	9,805	12,318	3,491,992	54,437	3,437,555
Rural infrastructure	457	-	457	526,913	-	526,913
Rural residential real estate	-	-	-	1,509	68	1,441
Agricultural export finance	82	-	82	59,135	-	59,135
Total	**$49,448**	**$12,031**	**$37,417**	**$17,611,297**	**$180,165**	**$17,431,132**

A summary of the changes in the Allowance for Loan Losses at March 31, 2022, is as follows:

	March 31, 2022
Allowance for Loan Losses	
Balance at beginning of year	$37,515
Charge-offs	(323)
Recoveries	449
Reversal of loan losses	(5,002)
Balance at end of quarter	**$32,639**

A summary of the changes in the Reserve for Unfunded Commitments at March 31, 2022, is as follows:

	March 31, 2022
Reserve for Unfunded Commitments	
Balance at beginning of year	$4,192
Reversal of unfunded commitments	(701)
Balance at end of quarter	**$3,491**

Notes to the Consolidated Financial Statements *(continued)*

LOAN MODIFICATIONS

The following table shows the amortized cost basis at March 31, 2023, for loan modifications granted to borrowers experiencing financial difficulty, disaggregated by loan type and type of modification granted.

	Interest Rate Reduction	
	March 31, 2023	**% of Total Loans**
Real estate mortgage	$989	0.01%
Production and intermediate-term	7,977	0.23%
Total	**$8,966**	**0.24%**

	Term or Payment Extension	
	March 31, 2023	**% of Total Loans**
Real estate mortgage	$54,053	0.56%
Production and intermediate-term	61,773	1.77%
Agribusiness	29,758	0.82%
Rural residential real estate	65	0.08%
Total	**$145,649**	**3.23%**

	Combination - Interest Rate Reduction and Term or Payment Extension	
	March 31, 2023	**% of Total Loans**
Real estate mortgage	$7,500	0.08%
Production and intermediate-term	9,127	0.26%
Total	**$16,627**	**0.09%**

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty as of the three months ended March 31, 2023, was $1.18 million.

Notes to the Consolidated Financial Statements *(continued)*

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty during the three months ended March 31, 2023:

	Interest Rate Reduction
	Financial Effect
Real estate mortgage	Reduced weighted average contractual interest rate on loans from 14.81% to 9.81%.
Production and intermediate-term	Reduced weighted average contractual interest rate on loans from 8.27% to 7.65%.

	Term or Payment Extension
	Financial Effect
Production and intermediate-term	Increased weighted-average maturities on loans by 1.5 years.

	Combination - Interest Rate Reduction and Term or Payment Extension
	Financial Effect
Real estate mortgage	Reduced weighted average contractual interest rate on loans from 11.32% to 6.32% with no change to weighted-average maturities.
Production and intermediate-term	Reduced weighted average contractual interest rate on loans from 10.09% to 7.98% and increased weighted-average maturities on loans by 0.5 years.

The following table sets forth the amortized cost of loans to borrowers experiencing financial difficulty that received a modification on or after January 1, 2023, the date of adoption of the guidance "Financial Instruments – Credit Losses: Troubled Debt Restructurings and Vintage Disclosure," through March 31, 2023, and that defaulted in the period presented:

	Modified Loans that Subsequently Defaulted	
	Interest Rate Reduction	**Term or Payment Extension**
Real estate mortgage	$535	$2,712
Production and intermediate-term	121	1,725
Agribusiness	-	813
Total	**$656**	**$5,250**

The following table sets forth an aging analysis of loans to borrowers experiencing financial difficulty that were modified on or after January 1, 2023, the date of the adoption of the guidance noted above, through March 31, 2023:

	Payment Status of Loans Modified in the Past 3 Months		
	Current	**30-89 Days Past Due**	**90 Days or More Past Due**
Real estate mortgage	$39,074	$14,458	$9,009
Production and intermediate-term	63,719	11,947	3,212
Agribusiness	28,945	813	-
Rural residential real estate	65	-	-
Total	**$131,803**	**$27,218**	**$12,221**

Additional commitments to lend to borrowers experiencing financial difficulty whose loans have been modified were $9.40 million at March 31, 2023.

TROUBLED DEBT RESTRUCTURINGS

Prior to the January 1, 2023, adoption of updated FASB guidance on loan modifications, 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 to the borrower that it would not otherwise consider. Concessions varied by program and were borrower-specific and could include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may have been forgiven. When a restructured loan constituted a troubled debt restructuring, these loans were included within impaired loans under nonaccrual or accruing restructured loans.

The Association had no TDRs during the first three months of 2022.

The following table provides information on outstanding principal balance of loans restructured in TDR at year end December 31, 2022.

	TDRs in Accrual Status	TDRs in Nonaccrual Status	Total TDRs
	Dec. 31, 2022	**Dec. 31, 2022**	**Dec. 31, 2022**
Real estate mortgage	$7,972	$1,294	$9,266
Production and intermediate-term	13	639	652
Total	**$7,985**	**$1,933**	**$9,918**

NOTE 3 – LEASES

The balance sheet effect of operating leases for office space, and finance leases for vehicles, are included in premises and equipment and other liabilities on the balance sheet. Right-of-use assets represent the Association's right to use an underlying asset for the lease term and lease liabilities represent the Association's obligation to make lease payments arising from the lease.

Future minimum lease payments under non-cancellable leases as of March 31, 2023, were as follows:

	Operating Leases	Finance Leases	Total
2023 (excluding the three months ended 3/31/23)	$518	$1,390	$1,908
2024	633	1,548	2,181
2025	548	1,172	1,720
2026	329	27	356
2027	101	-	101
Thereafter	1,292	-	1,292
Total lease payments	**3,421**	**4,137**	**7,558**
Less: interest	-	(326)	(326)
Total	**$3,421**	**$3,811**	**$7,232**

Right-of-use assets, net of accumulated amortization, amounted to $6.1 million for the period ended March 31, 2023.

Notes to the Consolidated Financial Statements *(continued)*

NOTE 4 – SHAREHOLDERS' EQUITY

The table below shows the Association's regulatory capital requirements and ratios as of March 31, 2023. The Association exceeded all regulatory minimum capital requirements as of March 31, 2023, and December 31, 2022.

	Regulatory Minimums	Capital Conservation Buffer	Total	Mar. 31, 2023	Dec. 31, 2022
Risk-adjusted:					
Common Equity Tier 1 Capital	4.5%	2.5%	7.0%	**10.32%**	10.09%
Tier 1 Capital	6.0%	2.5%	8.5%	**11.80%**	11.58%
Total Capital	8.0%	2.5%	10.5%	**12.89%**	12.81%
Permanent Capital	7.0%	0.0%	7.0%	**13.01%**	12.82%
Non-risk-adjusted:					
Tier 1 Leverage	4.0%	1.0%	5.0%	**13.45%**	13.29%
URE and UREE Leverage	1.5%	0.0%	1.5%	**11.71%**	11.51%

On June 14, 2021, the Association issued $300 million of Series A non-cumulative perpetual preferred stock at $1,000 par value per share. The issuance carries an annual dividend rate of 5.25% payable quarterly until the First Reset Date of June 15, 2026, thereafter, the amount equal to the sum of the Five-Year Treasury Rate as of the most recent Reset Dividend Determination Date plus 4.50%. The issuance will be callable June 15, 2026, and quarterly thereafter.

The Series A preferred stock is junior upon liquidation or dissolution to any subordinated debt, existing and future debt obligations, and to any series of preferred stock issued in the future with priority rights. Series A preferred stock has a preference as to dividends and is senior upon liquidation or dissolution to outstanding Class C common stock, Class F participation certificates, and patronage equities.

The following tables present the activity in the accumulated other comprehensive loss, net of tax by component:

Balance at December 31, 2022	Pension and Other Benefit Plans	Accumulated Other Comprehensive Loss
Other comprehensive loss before reclassifications	$(16,796)	$(16,796)
Amounts reclassified from accumulated other comprehensive loss	1,378	1,378
Net current period other comprehensive income	1,378	1,378
Balance at March 31, 2023	**$(15,418)**	**$(15,418)**

Balance at December 31, 2021	Pension and Other Benefit Plans	Accumulated Other Comprehensive Loss
Other comprehensive loss before reclassifications	$(19,121)	$(19,121)
Amounts reclassified from accumulated other comprehensive loss	1,052	1,052
Net current period other comprehensive income	1,052	1,052
Balance at March 31, 2022	**$(18,069)**	**$(18,069)**

Notes to the Consolidated Financial Statements *(continued)*

The following table represents reclassifications out of accumulated other comprehensive loss:

	For the Three Months Ended		Location of Gain/(Loss) Recognized in Statement of Income
	Mar. 31, 2023	Mar. 31, 2022	
Pension and other benefit plans:			
Net actuarial gain	$1,378	$1,052	Salaries & Benefits
Total amounts reclassified	**$1,378**	**$1,052**	

NOTE 5 – SUBORDINATED NOTES

In June 2021, the Association issued $200 million of Subordinated Notes (Notes), due in 2036, which may be redeemed all or in part on any interest payment date on or after June 2031. The Notes bear a fixed interest rate of 3.375% per annum, payable semi-annually until June 15, 2031, at which point the rate changes to a floating rate equal to the benchmark rate, expected to be three-month term SOFR, plus a spread of 212 basis points through maturity date or the date of earlier redemption. The Notes are subordinate to all other creditor debt, including general creditors, and senior to all classes of stock. The Notes are not considered System debt and are not an obligation of, nor guaranteed by any System entity. Further, payments on the Notes are not insured by the FCSIC. The notes are presented net of unamortized issuance costs of approximately $2.2 million on the Consolidated Statements of Condition at March 31, 2023.

NOTE 6 – FAIR VALUE MEASUREMENTS

Accounting standards define fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2022 Annual Report.

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

	March 31, 2023 Fair Value Measurement Using		December 31, 2022 Fair Value Measurement Using	
	Level 1	Level 3	Level 1	Level 3
Measured at fair value on a recurring basis:				
Assets held in nonqualified benefits trusts	$28,644		$26,778	
Measured at fair value on a non-recurring basis:				
Loans		$110,940		$40,525
Other Property Owned		$-		$4,330

During the reporting periods presented, the Association recorded no transfers in or out of Levels 1, 2, or 3. The Association had no liabilities measured at fair value on a recurring basis for the periods presented.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables present the carrying amounts, estimated fair values, and the level within the fair value hierarchy of the Association's financial instruments not carried at fair value. Receivables and payables due in one year or less, equity securities without readily determinable fair values, and other financial assets or liabilities with no defined or contractual maturities are excluded. There were no significant changes in the valuation techniques during the period ending March 31, 2023.

March 31, 2023	Carrying Amount	Fair Value	Fair Value Hierarchy
Financial assets (recorded at amortized cost):			
Loans, net of allowance	$17,495,867	$16,629,419	Level 3
Cash	$22,240	$22,240	Level 1
Financial liabilities (recorded at amortized cost):			
Notes payable to CoBank	$14,763,844	$14,304,736	Level 3
Subordinated debt	$197,799	$163,545	Level 3

December 31, 2022	Carrying Amount	Fair Value	Fair Value Hierarchy
Financial assets (recorded at amortized cost):			
Loans, net of allowance	$17,382,360	$16,422,139	Level 3
Cash	$58,269	$58,269	Level 1
Financial liabilities (recorded at amortized cost):			
Notes payable to CoBank	$14,769,000	$14,187,817	Level 3
Subordinated debt	$197,757	$157,538	Level 3

VALUATION TECHNIQUES

Accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Associations' assets and liabilities.

Loans: Fair value is estimated by discounting the expected future principal and interest cash flows to present value. The discount rate is a spread over an applicable yield curve, based on interest rates at which similar loans would be made to borrowers with similar credit risk regarding recent loan origination rates and management's estimates of credit risk. Management has no basis to determine whether the estimated fair values presented would be indicative of the assumptions and adjustments that a purchaser of the Association's loans would seek in an actual sale.

Fair value of loans in nonaccrual status is estimated as described above, but cash flows are principal only, meaning no interest cash flows occur, and the maturity date is adjusted to assume resolution occurs within two to three years.

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

Other Property Owned: Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of other property owned involves the use of independent appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

Assets Held in Nonqualified Benefits Trusts: Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Cash: Fair value of cash approximates amortized cost.

Notes Payable to CoBank: Fair value is estimated by discounting the future expected principal and interest cash flows to present value. The discount rate is a spread over an applicable yield curve based on current market rates of similar securities with similar maturities and characteristics. The current market rates used were obtained from the Federal Farm Credit Banks Funding Corporation.

Subordinated Debt: Fair value is estimated by discounting the future expected principal and interest cash flows to present value. This discount rate is a spread over an applicable yield curve based on expected market rates of similar securities. The expected market rates are derived from current market interest rates and the change in applicable corporate BBB finance spread obtained from an independent third party since the trade date. Management has no basis to determine whether the estimated fair value presented would be indicative of the assumptions and adjustments that a purchaser of the subordinated debt would seek in an actual sale.

NOTE 7 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through May 10, 2023, which is the date the financial statements were available to be issued.

On October 26, 2022, the boards of directors of American AgCredit, ACA and Farm Credit of New Mexico, ACA approved an agreement and plan of merger under which Farm Credit of New Mexico would merge with and into American AgCredit (the "Merger"). On April 5, 2023, FCA granted preliminary approval of the Merger. Each Association held a special meeting of stockholders on May 9, 2023, at which the stockholders of both Associations voted to approve the Merger. The regulatory 35-day reconsideration period required before FCA issues final approval is expected to expire on June 14, 2023. Assuming final FCA approval is timely received thereafter, we anticipate the Merger taking effect on July 1, 2023.