Quarterly Report to Shareholders

American AgCredit

Your future grows here

as of September 30, 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 third 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"). Each Association held a special meeting of stockholders on May 9, 2023, at which the stockholders of both Associations voted to approve the Merger. On June 22, 2023, the FCA notified Farm Credit of New Mexico that a voting stockholder had filed a petition for reconsideration. The FCA determined the petition was properly filed by the Farm Credit of New Mexico voting stockholder and a reconsideration vote was needed. On August 25, 2023, the shareholders of Farm Credit of New Mexico voted to approve the merger. Following approval by CoBank and FCA, the merger was effective October 1, 2023.

Economic Overview

The third quarter of 2023 continued a trend of overall easing inflation (excluding energy prices), resilient consumer spending, and a softening, yet still relatively strong, labor market. Some optimism remains for a "soft landing," meaning a return to the Federal Reserve's target inflation of 2% without causing an economic recession, but the level of uncertainty remains high. Real gross domestic production (GDP) grew at a blistering rate of 4.9% in the third quarter as consumer spending and inventory investment increased sharply. Personal consumption expenditures increased 2.9% in the third quarter, up from 2.5% in the second quarter. Several factors are likely to play into overall economic conditions over the next 12 months. The restart of student loan repayments, paused since March 2020, will divert overall spending to debt service and likely away from traditional consumer items. Restaurants and discretionary food purchases such as wine could be impacted, as well as home improvement projects and residential remodeling activity. The housing market also continued to slow as total housing starts have fallen below pre-Covid levels and is expected to remain so due to high mortgage rates. Overall domestic economic conditions may be disrupted by a partial federal government shutdown that could occur on November 17, absent enacted legislation from Congress authorizing continued funding. As the Farm Credit System and its regulator are not funded by government appropriations, there is no direct impact to the Association from a potential partial shutdown. As a result of OPEC+ production cuts, the U.S. Energy Information Administration is predicting high petroleum prices to remain through the end of the year on declining inventories. Overall, oil prices have increased about 30%

since June and as of the end of September, the average price per gallon of gas was $3.83 a gallon, compared to $3.22 as of the beginning of the year. Particularly, diesel and other transportation fuel prices have increased, which could increase food and construction costs. Although the Federal Reserve has slowed the rate of interest rate increases, market conditions which impact consumer rates continue to push longer-term rates upward. In particular, the average interest rate on a credit card increased above 20% in August, the highest on record since 1995. Additionally, long-term Treasury yields has also driven up the cost of residential and commercial mortgages, the latter of which has already been stressed.

The Federal Reserve Open Market Committee made one interest rate hike to bring the federal funds rate to a range of 5.25% to 5.50% during the quarter. At September 30, the 30 year fixed-rate mortgage remains at a multi-decade high at 7.31% according to the Freddie Mac Primary Mortgage Market Survey, which is the highest level since the beginning of the millennium. Total year-to-date rate increases amount to 100 basis points, as compared to 300 basis points for the same time frame last year. Unemployment remained at a historically low 3.8% in September and overall jobs gains indicated continued labor strength, which increases the likelihood of additional rate increases.

Domestic equity markets have come off recent highs, although most indexes still have experienced overall year-to-date gains. Although the S&P 500 declined 4.9% in September, overall year-to-date gains amounted to 12%, as compared to a decline of 25% for the same period last year. Annualized inflation in September was 3.7%. Significantly contributing to the slight increase though third quarter was increasing energy prices. Core inflation at the end of September, which excludes more volatile food and energy increases, was 4.1%, as compared to 6.6% last year. Core inflation is seen by some economists as a better indication of underlying prices pressures.

Due to historic rains in the 2022-2023 winter, nearly all of California and Nevada are out of drought conditions, with only the southwest quadrant of Colorado in some drought conditions. Much of Kansas remains in at least severe drought conditions. Devastating wildfires on Maui are expected to impact the agrotourism industry negatively, although overall Hawaiian agriculture should remain steady given most is concentrated on the Big Island. The National Weather Service’s Climate Prediction Center recently stated its prediction for an “El Nino” weather pattern which typically results in a wetter winter for the western United States.

California has enacted Senate Bill 253, which is legislation requiring all companies with revenue over $1 billion that do business in the state, starting in 2027, to disclose “Scope 3” indirect upstream and downstream greenhouse gas emissions from sources an entity does not control such as from suppliers, customers, and employee commutes. Although the legislation would only directly apply to larger agribusinesses, it is expected to increase regulation and compliance costs across much of the agricultural sector as customers and vendors of covered entities would be required to calculate their emissions for disclosure purposes.

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 16.03% and 13.93%, respectively, followed by field crops at 12.85%, dairies and dairy products at 10.87%, beef at 10.29%, and forest products at 8.28%. The top six commodities make up 72.25% of the total portfolio with the remaining 27.75% 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:** There has been little change in the trajectory of the U.S. wine market over the past three months. Retail sales continue to decline across the price spectrum although the overall sales mix remains intact as the middle price tier ($11 to $30) holds up better than the lower and upper ends. Imports continue to slowly take share from domestic wines. Wine demand is expected to be dampened should economic sluggishness increase. While no major category is growing in absolute terms, sales of sparkling and white wines are still outpacing those of red varietals and rosé. The 2023 vintage has proven to be the coolest temperature-wise in recent history. The grape crop ran two to three weeks behind schedule, depending on the site and varietal. Growers have been combating powdery mildew in many areas, and rains associated with Hurricane Hilary have exacerbated disease pressures, particularly in California's southern valley. An average-size crop would be a double-edged sword. On the positive side, it would help to alleviate the inventory issues that some smaller producers have been struggling with following three consecutive short crops. But given weak case sales trends, a return to average would be challenging for growers with uncontracted or excess fruit and potentially dampen activity and pricing heading into 2024. Given weak consumer demand trends, growers who make bulk wine with excess fruit could face increased downside risk should the wine market continue to contract.

- **Tree fruits and nuts:** Tree fruit and nut operations continue to face high production costs and low pricing. The general expectation is that the 2023 almond harvest will come in under the 2.57-billion-pound USDA forecast. This is attributable to poor weather conditions throughout the season as well as high levels of navel orange worm infestation. Despite a slight increase in pricing in recent weeks, high levels of inventory will likely continue to keep almond prices low. The walnut market has also been grappling with low prices due to an inventory buildup during the pandemic, but also quality issues with the 2022 crop. There is optimism about the new crop year, however, given reports of the low levels of global inventory and the high quality of the crop that is about to be harvested. The pistachio market has avoided many of the issues that have challenged almonds and walnuts, yet pricing is likely to be lower for the 2023 crop than in 2022 given this year's production. Most reports indicate a crop in the 1.4- to 1.5-billion-pound range which would be a record for the industry. Given that most almond, walnut, and pistachio production is exported, the strength of the dollar has been a challenge in exporting nuts overseas and will likely continue to be a challenge going forward.

- **Field crops:** Global field crop production is down; however, prices have continued falling. Among the major price drivers are low-priced wheat coming out of Russia and a decline in the corn market. Alongside higher interest rates, there has been a growing need for price improvement required for storage to be profitable. This could eventually aid drought-impacted crops such as wheat. The 2023 winter wheat harvest was marked by short wheat, low yields, and a race to the finish before weeds took over throughout the Plains. Drought in the Midwest, especially Kansas, has resulted in extremely poor growing conditions and have resulted in higher-than-average indemnity payments. One bright note overall for field crops is that fertilizer prices have experienced double-digit declines through 2023 on increasing global supplies. The USDA cut 2023/2024 wheat export expectations by 25 million bushels to 700 million bushels in the August World Agricultural Supply and Demand Estimates report. US grain prices remain uncompetitive compared due to a surplus in Russia and France. The fast and dry start to the corn growing season has produced what could be the fifth-largest harvest on record. Current corn forecast indicates an early 2024 harvest and conditions favorable to fieldwork. Tight ending inventories from last year and extreme weather uncertainty have led to big rallies in soybean prices so far this summer. With increased wheat abandonment in the Midwest, the moisture in the western corn belt and the South could lead to larger-than-normal double-crop soybean plantings. However, Brazilian competition has impacted soybean exports and the USDA recently reduced estimated total U.S. exports for the 2022/2023 marketing year.

- **Dairy:** Milk prices have improved dramatically from the depths of the low point registered in July. The most recent Milk Production report from the USDA indicated total U.S. milk production turned negative year-over-year starting in July and should continue to decline through 2023. Milk production outlook for 2024 will depend heavily on the trajectory of milk cow numbers over the next couple of months. If slaughter rates remain elevated and cow numbers decline sharply, rebuilding the herd could be a gradual process given the low heifer inventories available for replacement. Feed prices are showing signs of improvement and will provide some needed relief next year. Another bright point is the continued value in beef-dairy cross calves. Prices for day-old beef-dairy cross calves have skyrocketed to nearly double their normal value. Not only will this help with revenue through 2023, but it will continue to incentivize more cross calves going toward beef rather than rebuilding milk herd. Domestic demand for cheese has been good, and the surplus milk situation has evaporated with late-summer heat waves. Unfortunately, cheese exports, which provided an extra boost to markets last year, have slowed. Milk prices should continue to improve somewhat through the rest of the year, but further upside potential appears limited in 2024 barring any major export improvements. Still, milk prices in the current range should provide better margin next year than this year against a backdrop of easing feed costs.

- **Beef:** U.S. cattle slaughter through the third quarter was down several percent year-over-year, resulting in lower beef production. Verses 2022, fourth quarter beef production could be down a year-over-year 5.5%. Feedlot replacement cattle prices rallied all through the summer, supported by declining grain prices and tightening feeder cattle and calf supplies. Beef prices should continue to rally at least through next year's spring grilling season. However, fed cattle profits are expected to turn to losses next quarter as a result of record feeder cattle prices. Many operations in the Midwest are liquidating cows because of drought-caused lack of surface water and/or forage. In areas where water and forage are less of a concern, producers are still faced with using added revenue from high calf prices to pay for the extra volume of high-priced hay and forage they had to purchase to get through the drought and rebuild hay stocks for the winter. If retail beef prices can hold current levels, nominal beef spending in 2023 could be equal with last year's record total, despite a 4% decline in commercial beef production. The increase in forecast retail beef prices will likely add about $7.7 billion to total beef spending and supply chain revenue for 2023 versus the expectation at the beginning of the year. This added spending will further support beef and cattle prices at all levels of the industry.

- **Forest products:** The forest product industry has largely stabilized from periods of sharp volatility from 2020 through 2022. Prices for most construction materials remain below the average from 2020 through 2022 but are above pre-Covid levels and have been relatively stable for most of 2023. However, prices for medium density fiberboard and plywood, also common construction materials, have remained significantly above pre-Covid levels. Most in the industry expect prices of construction materials to remain stable as supply has been managed to match expectations of slower demand for construction materials as new home and commercial constructions are expected to decline. Prices for pulp, chips, and paper have also stabilized well above pre-Covid averages. Demand for U.S. chips and pulp also temporarily increased in the third quarter due to wildfires in Canada and tissue consumption has steadily increased in 2023. Log prices ticked up in the third quarter after a slight decline in the first half of 2023. Most log prices remain below the record levels set in 2022 but still above pre-Covid levels. Stumpage prices across the South remain mostly flat.

Loan Portfolio

The total loan and lease balance was $18.1 billion at September 30, 2023, an increase of $676.9 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 reduced balances overall on real-estate secured mortgages as a result of the interest rate environment. On a year-over-year basis, loans increased by $1.2 billion when compared to September 30, 2022, resulting in a growth rate of 6.91%. Credit quality remains strong at 96.15% as of September 30, 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 $18.1 billion of loans and leases reported on our balance sheet, we serviced an additional $8.7 billion of loans and syndicated balances for other institutions as of September 30, 2023, as compared to $6.2 billion at September 30, 2022.

Nonearning Assets

Nonaccrual loans increased by $57.0 million to $229.1 million at September 30, 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 $159.7 million, offset by $79.1 million year-to-date repayments on nonaccrual loans, charge-offs of nonaccrual loans of $21.9 million, and loans reinstated to accrual status of $1.8 million. Nonaccrual loans represented 1.27% of total loans at the end of September 30, 2023, compared to 0.62% at September 30, 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 $18.8 million at September 30, 2023, which included a $17.7 million allowance for loan losses and a $1.1 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.

Management's Discussion and Analysis

Financial Condition and Results of Operations

Net income for the nine months ended September 30, 2023, was $290.9 million compared to $273.7 million for the same period last year, an increase of $17.2 million. The change in net income was primarily due to the following reasons:

- Net interest income increased by $28.2 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 4.10% and 2.37% as of September 30, 2023 and 2022, respectively.
- The Association recorded a provision for credit losses of $14.3 million through September 30, 2023, as compared to $5.8 million a year ago. This overall $8.5 million increase is primarily a result of the Association's increasing loan portfolio and some credit quality decline, offset by changes in assumptions used in the provision estimate recorded in September 2022.
- Non-interest income increased by $15.4 million year-over-year. The increase was primarily due to a $13.2 million increase in patronage income from Farm Credit institutions and an increase in loan servicing fees and late fees, which were partially offset by a decrease in loan origination fees.
- FCSIC insurance, a component of noninterest operating expense, decreased by $0.3 million when compared to September 2022. The FCSIC board voted to set the insurance premium assessment rate on adjusted insured debt to 18 basis points for 2023, as compared to 20 basis points for 2022.
- Overall, non-interest operating expenses increased by $18.0 million compared to the same period last year, primarily caused by increases in salaries and benefits due to higher headcount, higher travel and lodging expenses from price inflation and increased travel, and costs related to the merger with Farm Credit of New Mexico, such as technology integration costs.

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

	For the Nine Months Ended		Increase (Decrease) in
	September 30, 2023	**September, 2022**	**Net Income**
Net interest income	$396,633	$368,386	$28,247
(Provision for)/Reversal of credit losses	(14,288)	(5,818)	(8,470)
Patronage income	97,988	84,759	13,229
Other income, net	19,455	17,292	2,163
Non-interest expenses	(208,849)	(190,889)	(17,960)
Provision for income taxes	(11)	(17)	6
Net income	**$290,928**	**$273,713**	**$17,215**

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

	September 30,	
	2023	**2022**
Return on average assets	2.09%	2.12%
Return on common equity	14.38%	14.58%
Return on total equity	12.94%	13.02%
Net interest margin	3.00%	3.00%

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. The direct note with CoBank is governed by a General Financing Agreement which was renewed effective June 1, 2023, for an additional five-year term.

Shareholders' Equity

The Association's capital position remains strong. Total shareholders' equity was $3.1 billion at the end of the third quarter, an increase of $311.4 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 September 30, 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

November 9, 2023

Consolidated Statements of Condition *(dollars in thousands)*

	September 30, 2023	December 31, 2022
	(Unaudited)	*(Audited)*
ASSETS		
Loans	$18,108,686	$17,431,808
Less: allowance for credit losses on loans	(17,726)	(49,448)
Net loans	18,090,960	17,382,360
Cash	25,328	58,269
Accrued interest receivable	252,265	179,489
Investment in CoBank	460,416	457,636
Investment in AgDirect	29,065	26,521
Premises and equipment, net	107,793	111,254
Other property owned	-	4,160
Other assets	272,263	281,862
Total assets	**$19,238,090**	**$18,501,551**
LIABILITIES		
Notes payable to CoBank	$15,420,463	$14,769,000
Subordinated debt	197,882	197,757
Funds Held accounts	247,669	296,137
Accrued interest payable	86,489	58,201
Cash patronage and preferred stock dividends payable	-	185,747
Reserve for unfunded commitments	1,028	3,900
Other liabilities	151,839	169,505
Total liabilities	**16,105,370**	**15,680,247**
SHAREHOLDERS' EQUITY		
Preferred stock	300,000	300,000
Common stock and participation certificates	10,555	10,604
Additional paid-in capital	677,110	677,110
Unallocated retained surplus	2,157,718	1,850,386
Accumulated other comprehensive loss	(12,663)	(16,796)
Total shareholders' equity	**3,132,720**	**2,821,304**
Total liabilities and shareholders' equity	**$19,238,090**	**$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 September 30, 2023	For the Three Months Ended September 30, 2022	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022
INTEREST INCOME				
Loans	$303,857	$209,015	$864,501	$530,151
Total interest income	**303,857**	**209,015**	**864,501**	**530,151**
INTEREST EXPENSE				
Notes payable CoBank	166,937	76,101	455,380	153,556
Subordinated notes	1,729	1,729	5,187	5,187
Funds Held and other interest	2,307	1,378	7,301	3,022
Total interest expense	**170,973**	**79,208**	**467,868**	**161,765**
Net interest income	**132,884**	**129,807**	**396,633**	**368,386**
Provision for credit losses	(532)	(7,645)	(14,288)	(5,818)
Net interest income after provision for credit losses	**132,352**	**122,162**	**382,345**	**362,568**
NON-INTEREST INCOME				
Patronage income from CoBank	20,113	18,370	59,214	55,777
Patronage income from other Farm Credit institutions	10,390	7,689	36,183	26,628
Patronage income from AgDirect	906	857	2,591	2,354
Loan origination fees	1,995	1,823	6,178	6,576
Servicing fees and late charges	595	531	4,430	2,501
Financially related services	1,758	2,524	4,213	3,967
Miscellaneous	1,285	1,730	4,634	4,248
Total non-interest income	**37,042**	**33,524**	**117,443**	**102,051**
NON-INTEREST EXPENSES				
Salaries and benefits	48,685	42,888	130,889	114,739
Occupancy and equipment expense	2,409	2,797	7,525	7,905
Insurance fund premiums	6,611	6,758	19,500	19,776
Supervisory and examination expense	1,043	626	2,810	2,311
Other operating expenses	18,663	19,566	48,125	46,158
Total non-interest expenses	**77,411**	**72,635**	**208,849**	**190,889**
Income before income taxes	91,983	83,051	290,939	273,730
Provision for income taxes	-	-	(11)	(17)
Net income	**$91,983**	**$83,051**	**$290,928**	**$273,713**
COMPREHENSIVE INCOME				
Actuarial gain in retirement obligation	1,378	1,052	4,133	3,155
Total comprehensive income	**$93,361**	**$84,103**	**$295,061**	**$276,868**

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

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

For the Nine Months Ended September 30, 2022 and 2023

(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				273,713	3,155	276,868
Stock/participation certificates issued	823					823
Stock/participation certificates retired	(657)					(657)
Preferred stock dividends				(11,813)		(11,813)
Adjustment to prior period patronage accrual				(1,778)		(1,778)
Balance at September 30, 2022	**$10,661**	**$300,000**	**$677,110**	**$1,955,093**	**$(15,966)**	**$2,926,898**
Balance at December 31, 2022	**$10,604**	**$300,000**	**$677,110**	**$1,850,386**	**$(16,796)**	**$2,821,304**
Comprehensive income				290,928	4,133	295,061
Stock/participation certificates issued	551					551
Stock/participation certificates retired	(600)					(600)
Preferred stock dividends				(11,813)		(11,813)
Adjustment to prior period patronage accrual				(3,430)		(3,430)
Cumulative effect adjustment				31,647		31,647
Balance at September 30, 2023	**$10,555**	**$300,000**	**$677,110**	**$2,157,718**	**$(12,663)**	**$3,132,720**

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 third 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, the unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. 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

On January 1, 2023, 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). This guidance replaced the previous methodology with a single allowance framework that estimates CECL over the remaining contractual life for all financial assets measured at amortized cost and certain off-balance-sheet credit exposures. This guidance is applied on a modified retrospective basis. This framework 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 consider macroeconomic conditions. 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 and adds 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 on a prospective basis.

The following table presents the balance sheet 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

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

In December 2022, the FASB issued an update entitled "Reference Rate Reform - Deferral of the Sunset Date of Topic 848." In March 2020, the FASB issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting (Reference Rate Reform)," which provided optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform to ease the potential burden related to reference rate reform (transition away from the London Inter-Bank Offered Rate (LIBOR)) with the optional amendments effective as of March 12, 2020 through December 31, 2022, the sunset date. At the time the update was issued, the expectation was that LIBOR would cease to be published after December 31, 2021.

In January 2021, the FASB issued an update to Reference Rate Reform whereby certain derivative instruments could be modified to change the rate used for margining, discounting, or contract price alignment. An entity could elect to apply the new amendments on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the update, up to the date that financial statements are available to be issued. These amendments did not apply to contract modifications made or new hedging relationships entered into after December 31, 2022, and existing hedging relationships evaluated for effectiveness in periods after December 31, 2022.

Subsequent to the issuance of the January 2021 update, it was announced that the intended cessation date for various tenors of LIBOR would be June 30, 2023, thus necessitating the update to the sunset date. The amendments in the current update defer the sunset date from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief.

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 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.

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

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.

Interest rate modifications are a reduction of the weighted average contractual interest rate. Such modifications are inclusive of the impact from any applicable default on the related loan, specifically that which resulted in an interim increase from the stated interest rate to that of the contractual default rate, generally 2-5% above the interest rate otherwise applicable. Subject to the mitigating terms and other considerations provided by the customer as part of the final negotiated modification, the applicable interest rate can revert to the pre-default level, or some level between that of the original stated rate and the default rate, upon formal documentation of the modification.

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.

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

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:

	September 30, 2023		December 31, 2022	
	Amount	**Percentage**	**Amount**	**Percentage**
Real estate mortgage	$9,688,598	53.5%	$9,716,259	55.7%
Production and intermediate-term	3,867,892	21.4%	3,654,915	21.1%

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

Agribusiness	3,788,115	20.9%	3,474,462	19.9%
Rural infrastructure	699,673	3.9%	526,095	3.0%
Rural residential real estate	1,266	0.0%	1,492	0.0%
Agricultural export finance	63,142	0.3%	58,585	0.3%
Total loans	**$18,108,686**	**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 September 30, 2023. The Association had no participations purchased from or sold to non-Farm Credit institutions at September 30, 2023.

	Other Farm Credit Institutions	
	Participations	
	Purchased	**Sold**
Real estate mortgage	$692,381	$2,276,570
Production and intermediate-term	1,030,313	1,387,674
Agribusiness	2,079,928	3,296,331
Rural infrastructure	669,612	160,741
Agricultural export finance	63,142	-
Total	**$4,535,376**	**$7,121,316**

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.

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

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 year-to-date 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 *(dollars in thousands, except as noted.)*

	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	$713,388	$1,455,202	$1,610,900	$1,323,760	$893,959	$2,576,289	$375,556	$78,558	$9,027,612
OAEM	8,270	32,276	30,282	52,171	28,583	95,385	23,154	7,016	277,137
Substandard/Doubtful	9,944	74,727	35,543	53,202	81,251	103,725	15,413	10,044	383,849
Total	**731,602**	**1,562,205**	**1,676,725**	**1,429,133**	**1,003,793**	**2,775,399**	**414,123**	**95,618**	**9,688,598**
Current period gross charge-offs	**-**	**-**	**-**	**-**	**(74)**	**-**	**-**	**-**	**(74)**
Production and intermediate-term:									
Acceptable	368,998	385,141	275,768	272,868	106,013	237,313	1,853,265	7,402	3,506,768
OAEM	1,885	23,211	5,516	5,997	31,912	1,071	118,405	1,123	189,120
Substandard/Doubtful	9,755	40,156	24,216	11,456	40,182	4,960	26,370	14,909	172,004
Total	**380,638**	**448,508**	**305,500**	**290,321**	**178,107**	**243,344**	**1,998,040**	**23,434**	**3,867,892**
Current period gross charge-offs	**74**	**2,837**	**523**	**294**	**8,964**	**48**	**1,294**	**41**	**14,075**
Agribusiness:									
Acceptable	705,451	858,451	677,379	294,973	216,614	398,767	431,143	24,134	3,606,912
OAEM	13,820	6,919	9,216	3,675	4,735	23	2,083	-	40,471
Substandard/Doubtful	26,911	849	17,335	58,137	6,874	13,992	10,401	6,233	140,732
Total	**746,182**	**866,219**	**703,930**	**356,785**	**228,223**	**412,782**	**443,627**	**30,367**	**3,788,115**
Current period gross charge-offs	**1,987**	**-**	**1,568**	**-**	**7**	**179**	**4,156**	**-**	**7,897**
Rural infrastructure:									
Acceptable	279,880	131,022	149,804	79,278	25,095	27,476	3,099	-	695,654
OAEM	-	-	-	-	-	4,019	-	-	4,019
Total	**279,880**	**131,022**	**149,804**	**79,278**	**25,095**	**31,495**	**3,099**	**-**	**699,673**
Rural residential real estate:									
Acceptable	-	-	227	225	-	749	-	-	1,201
Substandard/Doubtful	-	-	-	-	-	65	-	-	65
Total	**-**	**-**	**227**	**225**	**-**	**814**	**-**	**-**	**1,266**
Agricultural export finance:									
Acceptable	-	20,139	8,744	-	-	15,000	3,781	15,478	63,142
Total	**-**	**20,139**	**8,744**	**-**	**-**	**15,000**	**3,781**	**15,478**	**63,142**

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

Total loans:									
Acceptable	2,067,717	2,849,955	2,722,822	1,971,104	1,241,681	3,255,594	2,666,844	125,572	16,901,289
OAEM	23,975	62,406	45,014	61,843	65,230	100,498	143,642	8,139	510,747
Substandard/Doubtful	46,610	115,732	77,094	122,795	128,307	122,742	52,184	31,186	696,650
Total Loans	**$2,138,302**	**$3,028,093**	**$2,844,930**	**$2,155,742**	**$1,435,218**	**$3,478,834**	**$2,862,670**	**$164,897**	**$18,108,686**
Total current period gross charge-offs	**$2,061**	**$2,837**	**$2,091**	**$294**	**$8,897**	**$227**	**$5,450**	**$41**	**$21,898**

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 September 30, 2023						
	Acceptable		**OAEM**		**Substandard/Doubtful**		**Total**
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**
Real estate mortgage	$9,027,612	93.1%	$277,137	2.9%	$383,849	4.0%	$9,688,598
Production and intermediate-term	3,506,768	90.7%	189,120	4.9%	172,004	4.4%	3,867,892
Agribusiness	3,606,912	95.2%	40,471	1.1%	140,732	3.7%	3,788,115
Rural infrastructure	695,654	99.4%	4,019	0.6%	-	0.0%	699,673
Rural residential real estate	1,201	94.9%	-	0.0%	65	5.1%	1,266
Agricultural export finance	63,142	100.0%	-	0.0%	-	0.0%	63,142
Total	**$16,901,289**	**93.4%**	**$510,747**	**2.8%**	**$696,650**	**3.8%**	**$18,108,686**

Accrued interest receivable on loans of $252.3 million at September 30, 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 $3.1 million for the nine months ended September 30, 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

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

NONPERFORMING ASSETS

The following table reflects nonperforming assets on an amortized cost basis, which consist of nonaccrual loans, accruing loans 90 days or more past due, and other property owned and related credit quality statistics:

	September 30, 2023
Nonaccrual loans:	
Real estate mortgage	$107,370
Production and intermediate-term	78,683
Agribusiness	43,028
Rural residential real estate	65
Total nonaccrual loans	**229,146**
Accruing loans 90 days or more past due:	
Production and intermediate-term	139
Agribusiness	4,735
Total accruing loans 90 days or more past due	**4,874**
Total impaired loans	**234,020**
Other property owned	-
Total nonperforming assets	**234,020**

Nonaccrual loans as a percentage of total loans	1.27%
Nonperforming assets as a percentage of total loans and other property owned	1.27%
Nonperforming assets as a percentage of capital	7.31%

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 *(dollars in thousands, except as noted.)*

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:

	At September 30, 2023			Interest Income Recognized	
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	For the Three Months Ended September 30, 2023	For the Nine Months Ended September 30, 2023
Nonaccrual loans:					
Real estate mortgage	$300	$107,070	$107,370	$741	$2,485
Production and intermediate-term	5,945	72,738	78,683	689	882
Agribusiness	11,763	31,265	43,028	-	53
Rural residential real estate	-	65	65	-	-
Total nonaccrual loans	**$18,008**	**$211,138**	**$229,146**	**$1,430**	**$3,420**

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

	At September 30, 2022			For the Nine Months Ended September 30, 2022	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans:					
with a related allowance for credit losses	$44,897	$45,689	$5,564	$7,156	$4
with no related allowance for credit losses	70,551	137,351	-	87,432	3,211
Total	**$115,448**	**$183,040**	**$5,564**	**$94,588**	**$3,215**

DELINQUENCY

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

September 30, 2023	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$16,257	$27,249	$43,506	$9,645,092	$9,688,598	$-
Production and intermediate-term	6,164	28,375	34,539	3,833,353	3,867,892	139
Agribusiness	3	4,989	4,992	3,783,123	3,788,115	4,735
Rural infrastructure	-	-	-	699,673	699,673	-
Rural residential real estate	-	65	65	1,201	1,266	-
Agricultural export finance	-	-	-	63,142	63,142	-
Total	**$22,424**	**$60,678**	**$83,102**	**$18,025,584**	**$18,108,686**	**$4,874**

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

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. This limit applies to Associations with long-term and short- and intermediate-term lending authorities, and to the Banks’ (other than CoBank) loan participations.

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 June 30, 2023	$4,368	$6,475	$8,746	$-	$-	$19,589
Charge-offs	74	(1,160)	(1,676)	-	-	(2,762)
Recoveries	7	225	19	-	-	251
(Reversal of)/Provision for loan losses	(202)	1,656	(806)	-	-	648
Balance at September 30, 2023	**$4,247**	**$7,196**	**$6,283**	**$-**	**$-**	**$17,726**
Allowance for unfunded commitments:						
Balance at June 30, 2023	$124	$424	$596	$-	$-	$1,144
Provision for unfunded commitments	(15)	(78)	(23)	-	-	(116)
Balance at September 30, 2023	**$109**	**$346**	**$573**	**-**	**-**	**$1,028**
Total allowance for credit losses	**$4,356**	**$7,542**	**$6,856**	**$-**	**$-**	**$18,754**

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

	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	74	(14,075)	(7,897)	-	-	(21,898)
Recoveries	19	4,552	91	-	-	4,662
Provision for loan losses	1,043	10,469	2,426	-	-	13,938
Balance at September 30, 2023	**$4,247**	**$7,196**	**$6,283**	**$-**	**$-**	**$17,726**
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)	(2,018)	(1,039)	(52)	(6)	(3,223)
Balance at January 1, 2023	**92**	**249**	**336**	**-**	**-**	**677**
Provision for unfunded commitments	17	97	237	-	-	351
Balance at September 30, 2023	**$109**	**$346**	**$573**	**$-**	**$-**	**$1,028**
Total allowance for credit losses	**$4,356**	**$7,542**	**$6,856**	**$-**	**$-**	**$18,754**

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**

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

A summary of the changes in the Allowance for Loan Losses at September 30, 2022, is as follows:

	September 30, 2022
Allowance for Loan Losses	
Balance at beginning of year	$37,515
Charge-offs	(2,660)
Recoveries	1,787
Provision for/(Reversal of) loan losses	5,997
Balance at end of quarter	**$42,639**

A summary of the changes in the Reserve for Unfunded Commitments at September 30, 2022, is as follows:

	September 30, 2022
Reserve for Unfunded Commitments	
Balance at beginning of year	$4,192
Reversal of unfunded commitments	(178)
Balance at end of quarter	**$4,014**

LOAN MODIFICATIONS TO BORROWERS EXPERIENCING FINANCIAL DIFFICULTIES

Loan modifications may be granted to borrowers experiencing financial difficulty. Qualifying disclosable modifications are one or a combination of principal forgiveness, interest rate reduction, forbearance, or term extension. Covenant waivers and modifications of contingent acceleration clauses are not considered term extensions. Also included in the following disclosures are other-than-insignificant payment deferrals that may provide the borrower with a temporary payment deferral, which has been defined as cumulative or individual forbearance or payment delay greater than or equal to 6 months. These deferred payments may be capitalized into the principal balance of the loan and amortized with no extension of maturity or with the deferred payment due at the time of original maturity.

The following table shows the amortized cost basis at September 30, 2023, for loan modifications granted to borrowers experiencing financial difficulty during the three and nine months ended September 30, 2023, disaggregated by loan type and type of modification granted.

For the Three Months		
	Interest Rate Reduction	
	September 30, 2023	**% of Total Loans**
Real estate mortgage	$20,291	0.11%
Production and intermediate-term	838	0.00%
Agribusiness	1,583	0.01%
Total	**$22,712**	**0.12%**

	Term or Payment Extension	
	September 30, 2023	**% of Total Loans**
Real estate mortgage	$74	0.00%
Production and intermediate-term	7,400	0.04%
Total	**$7,474**	**0.04%**

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

	Payment Deferral	
	September 30, 2023	% of Total Loans
Real estate mortgage	$19,625	0.11%
Production and intermediate-term	218	0.00%
Agribusiness	30,040	0.17%
Total	**$49,883**	**0.28%**

	Combination - Interest Rate Reduction and Term or Payment Extension	
	September 30, 2023	% of Total Loans
Production and intermediate-term	$2	0.00%
Total	**$2**	**0.00%**

	Combination - Interest Rate Reduction and Payment Deferral	
	September 30, 2023	% of Total Loans
Production and intermediate-term	$81	0.00%
Total	**$81**	**0.00%**

	Combination - Term or Payment Extension and Payment Deferral	
	September 30, 2023	% of Total Loans
Production and intermediate-term	$1,764	0.01%
Total	**$1,764**	**0.01%**

For the Nine Months

	Interest Rate Reduction	
	September 30, 2023	% of Total Loans
Real estate mortgage	$39,803	0.22%
Production and intermediate-term	11,015	0.06%
Agribusiness	1,583	0.01%
Total	**$52,401**	**0.29%**

	Term or Payment Extension	
	September 30, 2023	% of Total Loans
Real estate mortgage	$74	0.00%
Production and intermediate-term	20,152	0.11%
Total	**$20,226**	**0.11%**

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

	Payment Deferral	
	September 30, 2023	**% of Total Loans**
Real estate mortgage	$20,525	0.11%
Production and intermediate-term	21,136	0.12%
Agribusiness	30,040	0.17%
Total	**$71,701**	**0.40%**

	Combination - Interest Rate Reduction and Term or Payment Extension	
	September 30, 2023	**% of Total Loans**
Production and intermediate-term	$98	0.00%
Total	**$98**	**0.00%**

	Combination - Interest Rate Reduction and Payment Deferral	
	September 30, 2023	**% of Total Loans**
Real estate mortgage	$16,983	0.09%
Production and intermediate-term	261	0.00%
Total	**$17,244**	**0.09%**

	Combination - Term or Payment Extension and Payment Deferral	
	September 30, 2023	**% of Total Loans**
Real estate mortgage	$2,378	0.01%
Production and intermediate-term	2,071	0.01%
Total	**$4,449**	**0.02%**

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty as of the three and nine months ended September 30, 2023, was $2.69 million and $3.75 million.

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

	Interest Rate Reduction
	Financial Effect
Real estate mortgage	Reduced weighted average contractual interest rate on loans from 11.56% to 9.18%
Production and intermediate-term	Reduced weighted average contractual interest rate on loans from 13.41% to 8.41%
Agribusiness	Reduced weighted average contractual interest rate on loans from 12.08% to 10.08%

	Term or Payment Extension
	Financial Effect
Real estate mortgage	Increased weighted-average maturities on loans by 5.9 years
Production and intermediate-term	Increased weighted-average maturities on loans by 1.3 years

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

	Payment Deferral
	Financial Effect
Real estate mortgage	Provided a weighted average 331 days payment deferral
Production and intermediate-term	Provided a weighted average 1 year payment deferral
Agribusiness	Provided a weighted average 1.6 years payment deferral

	Combination - Interest Rate Reduction and Term or Payment Extension
	Financial Effect
Production and intermediate-term	Increased weighted-average maturities on loans by 2.3 years

	Combination - Interest Rate Reduction and Payment Deferral
	Financial Effect
Production and intermediate-term	Reduced weighted average contractual interest rate on loans from 16.75% to 11.75%
Production and intermediate-term	Provided a weighted average 2.4 years payment deferral

	Combination - Term or Payment Extension and Payment Deferral
	Financial Effect
Real estate mortgage	Increased weighted-average maturities on loans by 1.2 years
Production and intermediate-term	Provided a weighted average 282 days payment deferral

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

	Interest Rate Reduction
	Financial Effect
Real estate mortgage	Reduced weighted average contractual interest rate on loans from 11.20% to 7.49%
Production and intermediate-term	Reduced weighted average contractual interest rate on loans from 10.10% to 8.08%
Agribusiness	Reduced weighted average contractual interest rate on loans from 12.08% to 10.08%

	Term or Payment Extension
	Financial Effect
Real estate mortgage	Increased weighted-average maturities on loans by 5.9 years
Production and intermediate-term	Increased weighted-average maturities on loans by 1.6 years

	Payment Deferral
	Financial Effect
Real estate mortgage	Provided a weighted average 337 days payment deferral
Production and intermediate-term	Provided a weighted average 2 years payment deferral
Agribusiness	Provided a weighted average 252 days payment deferral

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

	Combination - Interest Rate Reduction and Term or Payment Extension
	Financial Effect
Production and intermediate-term	Reduced weighted average contractual interest rate on loans from 10.03% to 8.00%
Production and intermediate-term	Increased weighted-average maturities on loans by 242 Days

	Combination - Interest Rate Reduction and Payment Deferral
	Financial Effect
Real estate mortgage	Reduced weighted average contractual interest rate on loans from 12.93% to 7.93%
Real estate mortgage	Provided a weighted average 343 days payment deferral
Production and intermediate-term	Reduced weighted average contractual interest rate on loans from 15.48% to 10.48%
Production and intermediate-term	Provided a weighted average 413 days payment deferral

	Combination - Term or Payment Extension and Payment Deferral
	Financial Effect
Real estate mortgage	Increased weighted-average maturities on loans by 214 days
Real estate mortgage	Provided a weighted average 1.6 years payment deferral
Production and intermediate-term	Increased weighted-average maturities on loans by 2 years
Production and intermediate-term	Provided a weighted average 230 days payment deferral

The following table sets forth the amortized cost of loans to borrowers experiencing financial difficulty that received a modification during the three months ended September 30, 2023, and that defaulted in the period presented:

	Modified Loans that Subsequently Defaulted		
	Interest Rate Reduction	**Term or Payment Extension**	**Payment Deferral**
Real estate mortgage	$67	$-	$9,529
Production and intermediate-term	293	941	54
Total	**$360**	**$941**	**$9,583**

The following table sets forth the amortized cost of loans to borrowers experiencing financial difficulty that received a modification during the nine months ended September 30, 2023, and that defaulted in the period presented:

	Modified Loans that Subsequently Defaulted			
	Interest Rate Reduction	**Term or Payment Extension**	**Payment Deferral**	**Combination - Interest Rate Reduction & Payment Deferral**
Real estate mortgage	$2,078	$-	$6,991	$9,596
Production and intermediate-term	293	8,432	10,078	-
Total	**$2,371**	**$8,432**	**$17,069**	**$9,596**

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

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

	Payment Status of Loans Modified in the Past 9 Months		
	Current	**30-89 Days Past Due**	**90 Days or More Past Due**
Real estate mortgage	$68,700	$1,626	$9,438
Production and intermediate-term	36,829	43	17,862
Agribusiness	31,623	-	-
Total	**$137,152**	**$1,669**	**$27,300**

Additional commitments to lend to borrowers experiencing financial difficulty whose loans have been modified were $1.9 million at September 30, 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 following table presents additional information regarding TDRs, whether accrual or non-accrual, that occurred during the first nine months of 2022.

	For the Nine Months Ended September 30, 2022	
	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:		
Real estate mortgage	$539	$539
Production and intermediate-term	$351	$351
Total	**$890**	**$890**

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

In the allowance for loan loss analysis, TDR loans are individually evaluated, and a specific allowance is established based on the likelihood the current events will result in an anticipated loss on the individual loans.

The following table provides information on outstanding principal balance of loans restructured in TDR at period end September 30, 2022. These loans are included as impaired loans in the impaired loan table at September 30, 2022:

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

	TDRs in Accrual Status		TDRs in Nonaccrual Status		Total TDRs	
	Sept. 30, 2022	Dec. 31, 2021	Sept. 30, 2022	Dec. 31, 2021	Sept. 30, 2022	Dec. 31, 2021
Real estate mortgage	$10,669	$9,539	$996	$2,403	$11,665	$11,942
Production and intermediate-term	13	15	1,332	1,094	1,345	1,109
Total	**$10,682**	**$9,554**	**$2,328**	**$3,497**	**$13,010**	**$13,051**

At September 30, 2022, the Association had no additional commitments to lend to borrowers whose loans had been modified in TDRs.

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 September 30, 2023, were as follows:

	Operating Leases	Finance Leases	Total
2023 (excluding the nine months ended 9/30/23)	$192	$651	$843
2024	692	2,256	2,948
2025	548	1,723	2,271
2026	329	229	558
2027	101	-	101
Thereafter	1,292	-	1,292
Total lease payments	**3,154**	**4,859**	**8,013**
Less: interest	-	(944)	(944)
Total	**$3,154**	**$3,915**	**$7,069**

Right-of-use assets, net of accumulated amortization, amounted to $6.2 million for the period ended September 30, 2023.

NOTE 4 – SHAREHOLDERS' EQUITY

The table below shows the Association's regulatory capital requirements and ratios as of September 30, 2023. The Association exceeded all regulatory minimum capital requirements as of September 30, 2023, and December 31, 2022.

	Regulatory Minimums	Capital Conservation Buffer	Total	Sept. 30, 2023	Dec. 31, 2022
Risk-adjusted:					
Common Equity Tier 1 Capital	4.5%	2.5%	7.0%	**10.63%**	**10.09%**
Tier 1 Capital	6.0%	2.5%	8.5%	**12.06%**	**11.58%**
Total Capital	8.0%	2.5%	10.5%	**13.12%**	**12.81%**
Permanent Capital	7.0%	0.0%	7.0%	**13.22%**	**12.82%**
Non-risk-adjusted:					
Tier 1 Leverage	4.0%	1.0%	5.0%	**13.82%**	**13.29%**
URE and UREE Leverage	1.5%	0.0%	1.5%	**12.12%**	**11.51%**

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

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)	$(16,796)
Amounts reclassified from accumulated other comprehensive loss	4,133	4,133
Net current period other comprehensive income	4,133	4,133
Balance at September 30, 2023	**$(12,663)**	**$(12,663)**

Balance at December 31, 2021	**Pension and Other Benefit Plans**	**Accumulated Other Comprehensive Loss**
Other comprehensive loss before reclassifications	$(19,121)	$(19,121)
Amounts reclassified from accumulated other comprehensive loss	3,155	3,155
Net current period other comprehensive income	3,155	3,155
Balance at September 30, 2022	**$(15,966)**	**$(15,966)**

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

	For the Nine Months Ended	
	Sept. 30, 2023	**Sept. 30, 2022**
Pension and other benefit plans:		
Net actuarial gain	$4,133	$3,155
Total amounts reclassified	**$4,133**	**$3,155**

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 $2.1 million on the Consolidated Statements of Condition at September 30, 2023.

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

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:

	September 30, 2023		December 31, 2022	
	Fair Value Measurement Using		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	$32,684		$26,778	
Measured at fair value on a non-recurring basis:				
Loans		$45,168		$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 September 30, 2023.

September 30, 2023	Carrying Amount	Fair Value	Fair Value Hierarchy
Financial assets (recorded at amortized cost):			
Loans	$18,090,960	$17,144,968	Level 3
Cash	$25,328	$25,328	Level 1
Financial liabilities (recorded at amortized cost):			
Notes payable to CoBank	$15,420,463	$14,837,063	Level 3
Subordinated debt	$197,882	$156,081	Level 3

December 31, 2022	Carrying Amount	Fair Value	Fair Value Hierarchy
Financial assets (recorded at amortized cost):			
Loans	$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

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

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

Following approval by CoBank, the FCA, and shareholders, effective October 1, 2023, the Association merged with Farm Credit of New Mexico, ACA. The merger was accounted for under the acquisition method of accounting guidance in accordance with FASB Accounting Standards Codification 805 Business Combinations (ASC 805).