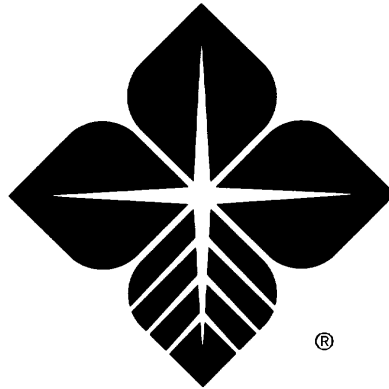


PLAINS LAND BANK, FLCA

**2023
Quarterly Report
Third Quarter**



For the Quarter Ended September 30, 2023

REPORT OF MANAGEMENT

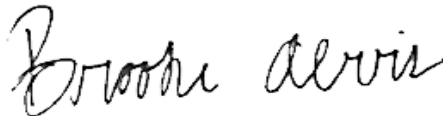
The undersigned certify that we have reviewed this report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of our knowledge and belief.



Kay Lynn McLaughlin, Chief Executive Officer
November 8, 2023



Walter (Rusty) Henson, Chairman, Board of Directors
November 8, 2023



Brooke Alvis, Chief Financial Officer
November 8, 2023

Third Quarter 2023 Financial Report

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PLAINS LAND BANK, FLCA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of Plains Land Bank, FLCA, referred to as the Association, for the quarter ended September 30, 2023. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2022, Annual Report to Stockholders.

The Association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The financial statements comprise the operations of the FLCA. The financial statements were prepared under the oversight of the Association's audit committee.

Significant Events

In January 2023, a patronage of \$10,500,000 was declared. This patronage was subsequently paid in March of 2023.

Quarterly, the Association accrues income for an annual patronage dividend received in December of each year at the discretion of the Farm Credit Bank of Texas. The level of the Association's accrual of projected patronage income is based on history and annual expectations. Based on information received in the third quarter, the Association's expectations for the Farm Credit Bank 2023 patronage to the Association have been reduced. As such, a portion of the patronage accrual was reversed, resulting in negative income of \$506,610 for the third quarter. This reduction in patronage accrual income has reduced the Association's net income.

Conditions in the Texas District

The Association continues to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit in the midst of above normal financial and macroeconomic volatility driven by factors such as an inverted yield curve and persistent high inflation. Federal Reserve officials continue to battle inflation by tightening monetary policy. Despite these turbulent times, credit quality at the Association has remained strong. Volatility in risk ratings is likely to remain a concern in the near future due to the cost of inflation, the relatively high cost of debt and an underlying recession risk.

The Consumer Price Index for All Urban Consumers increased by 3.7 percent for the 12-month period ending September 2023, well above the long-term target of approximately 2.0 percent. However, recent inflation rates represent significant declines from the four-decade high of 9.1 percent reached in June 2022. The Federal Open Market Committee (FOMC) decided to keep the target Federal funds rate constant within the 5.25 percent–5.50 percent range in September 2023, after raising the rate by 25 basis points in July 2023 for a total increase of about 525 basis points since mid-March 2022. The FOMC stated that it remains strongly committed to returning inflation to its 2 percent objective while achieving maximum employment.

On September 28, 2023, the U.S. Bureau of Economic Analysis (BEA) released its third estimate of real gross domestic product (GDP) for the second quarter of 2023. U.S. real GDP growth reached 2.1 percent during the second quarter of 2023, down from 2.2 percent during the first quarter of 2023. According to BEA data released on September 29, 2023, personal income growth rates among states within the Texas District decelerated during the second quarter of 2023 and ranged from a low of 2.3 percent in Mississippi and Alabama to a high of 4.0 percent in Texas. Comparatively, national personal income increased at an annualized rate of 4.3 percent during the second quarter of 2023.

The U.S. Bureau of Labor Statistics indicated that the U.S. unemployment rate remained steady month-over-month at 3.8 percent in September 2023. The August 2023 state unemployment rates in the Texas District ranged from a low of 2.1 percent in Alabama to a high of 4.1 percent in Texas. Three of the five states in the Texas District (i.e., Alabama, Louisiana and Mississippi) attained year-over-year (YOY) declines in the statewide unemployment rate in August 2023. Additionally, four of the five states in the Texas District reported unemployment rates lower than the national average.

West Texas Intermediate (WTI) crude oil futures prices (front month) increased to an average of about \$82 per barrel during the third quarter of 2023, up from nearly \$74 per barrel in the prior quarter but down from about \$91 per barrel during the same period a year ago. In the October 2023 edition of the Short-Term Energy Outlook, the U.S. Energy Information Administration estimated that the monthly average WTI spot price would be about \$80 per barrel in 2023 and \$91 per barrel in 2024. U.S. crude oil production is expected to reach record levels in 2023 and 2024, driven primarily by growth in the Permian Basin.

On August 31, 2023, the U.S. Department of Agriculture (USDA) presented its latest farm income forecast. Net farm income (nominal), a broad measure of profits, is forecasted at \$141.3 billion in 2023, a decrease of \$41.7 billion, or 22.8 percent, relative to 2022. This follows a record high of \$183.0 billion in 2022. Total production expenses (nominal) are forecasted to increase by about 6.9 percent in 2023 to \$458.0 billion. Farm sector assets and equity are both forecasted to increase by about 6.6 percent and 6.8 percent, respectively, while farm debt is forecasted to increase by about 4.9 percent in nominal terms. The debt-to-asset ratio is forecasted to continue to improve in 2023.

The October 2023 edition of the USDA World Agricultural Supply and Demand Estimates (WASDE) report states that farmers are expected to receive lower average farm prices for corn (-24.3 percent), wheat (-17.3 percent), soybeans (-9.2 percent) and

cotton (-5.7 percent) in the 2023/24 marketing year compared to the previous season. Similarly, after rising nearly 37.0 percent in 2022, the average price received by farmers for all milk is projected to decrease by about 18.3 percent YOY in 2023 and by 0.7 percent in 2024. USDA projected average steer prices (5-Area, Direct) will increase YOY by about 22.8 percent in 2023, while broiler and barrow and gilt prices are projected to decline by about 11.7 percent and 16.2 percent, respectively. USDA also projected higher average prices for steers and barrows and gilts in 2024 but lower prices for broilers. Random length lumber futures prices (front month) declined by about 1.3 percent month-over-month and 1.8 percent YOY in September 2023, closing at about \$500 per thousand board feet.

The Federal Reserve Bank of Dallas released its third-quarter Eleventh District (i.e., Texas, southern New Mexico and northern Louisiana) Agricultural Survey on October 2, 2023. Survey respondents noted overall weaker conditions across most regions, as extremely dry conditions are straining agricultural production. According to survey respondents, demand for agricultural loans decreased during the third quarter of 2023 for the seventh straight quarter. Respondents also reported a net tightening of credit standards for agricultural loans relative to the same period in the previous year.

According to the U.S. Drought Monitor released on October 12, 2023, much of the Texas District is currently experiencing drought conditions. In Texas, about 56 percent of land area is experiencing drought classified as severe, extreme or exceptional. Extreme and exceptional drought conditions are also impacting much of Louisiana and southern Mississippi. The U.S. Seasonal Drought Outlook released by the National Weather Service Climate Prediction Center on September 30, 2023, indicates that drought conditions are expected to remain but improve across much of the Texas District in the fourth quarter.

During 2023, agricultural producers and processors may be negatively impacted by several factors, including volatile commodity prices, high input costs, export market disruptions, geopolitical challenges and adverse weather conditions. The Association's loan portfolio is well-supported by industry diversification and conservative advance rates. Additionally, a high percentage of the Association's borrowers primarily rely on non-farm sources of income to repay their loans.

Loan Portfolio

Total loans outstanding as of September 30, 2023, including nonaccrual loans and sales contracts, were \$1,031,192,231 compared to \$952,871,122 as of December 31, 2022, reflecting an increase of 8.2 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.4 percent as of September 30, 2023, compared to 0.1 percent as of December 31, 2022.

The Association recorded \$3,711 in recoveries and \$62,430 in charge-offs for the nine months ended September 30, 2023, and no recoveries or charge-offs for the same period in 2022. The Association's allowance for credit losses on loans was 0.2 percent of total loans for both September 30, 2023, and December 31, 2022.

Risk Exposure

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the Association's components and trends of high-risk assets.

	High-Risk Assets			
	September 30, 2023		December 31, 2022	
	Amount	%	Amount	%
Nonaccrual	\$ 4,530,138	86.1%	\$ 1,005,885	100.0%
90 days past due and still accruing interest	728,341	13.9%	-	0.0%
Total	<u>\$ 5,258,479</u>	<u>100.0%</u>	<u>\$ 1,005,885</u>	<u>100.0%</u>

Results of Operations

The Association had net income of \$4,217,033 and \$16,388,428 for the three and nine months ended September 30, 2023, as compared to net income of \$5,685,937 and \$16,599,012 for the same period in 2022, reflecting a decrease of 25.8 percent and 1.3 percent. Net interest income was \$7,007,069 and \$20,952,651 for the three and nine months ended September 30, 2023, compared to \$6,495,850 and \$18,908,596 for the same period in 2022.

	Nine Months Ended			
	September 30, 2023		September 30, 2022	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 1,001,853,379	\$ 44,204,785	\$ 912,967,448	\$ 33,203,674
Interest-bearing liabilities	871,912,428	23,252,134	791,089,868	14,295,078
Impact of capital	<u>\$ 129,940,951</u>		<u>\$ 121,877,580</u>	
Net interest income		<u>\$ 20,952,651</u>		<u>\$ 18,908,596</u>
	2023		2022	
	Average Yield		Average Yield	
Yield on loans	5.90%		4.86%	
Cost of interest-bearing liabilities	3.57%		2.42%	
Interest rate spread	2.33%		2.44%	
Net interest income as a percentage of average earning assets	2.80%		2.77%	

	Nine months ended: September 30, 2023 vs. September 30, 2022		
	Increase due to		
	Volume	Rate	Total
Interest income - loans	\$ 3,231,016	\$ 7,770,095	\$ 11,001,111
Interest expense	1,462,910	7,494,146	8,957,056
Net interest income	<u>\$ 1,768,106</u>	<u>\$ 275,949</u>	<u>\$ 2,044,055</u>

Interest income for the three and nine months ended September 30, 2023, increased by \$3,350,001 and \$11,001,111, or 27.9 percent and 33.1 percent respectively, from the same period of 2022, primarily due to an increase in yields on earning assets and an increase in average loan volume. Interest expense for the three and nine months ended September 30, 2023, increased by \$2,838,782 and \$8,957,056, or 51.4 percent and 62.7 percent, from the same period of 2022 due to an increase in interest rates and an increase in average debt volume. Average loan volume for the third quarter of 2023 was \$1,022,109,363, compared to \$940,227,855 in the third quarter of 2022. The average net interest rate spread on the loan portfolio for the third quarter of 2023 was 2.26 percent, compared to 2.39 percent in the third quarter of 2022.

The Association's return on average assets for the nine months ended September 30, 2023, was 2.11 percent compared to 2.35 percent for the same period in 2022. The Association's return on average equity for the nine months ended September 30, 2023, was 13.59 percent, compared to 14.91 percent for the same period in 2022.

Liquidity and Funding Sources

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the Bank), which obtains its funds through the issuance of System-wide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	September 30, 2023	December 31, 2022
Note payable to the Bank	\$ 903,788,210	\$ 823,977,823
Accrued interest on note payable	2,782,646	2,250,424
Total	<u>\$ 906,570,856</u>	<u>\$ 826,228,247</u>

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2024. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$903,788,210 as of September 30, 2023, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 3.57 percent as of September 30, 2023. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2022, is due to the Association's increase in total assets since year end. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$127,125,134 as of September 30, 2023. The maximum amount the Association may borrow from the Bank as of September 30, 2023, was \$1,046,148,170 as defined by the prior general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2024, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

Capital Resources

The Association's capital position increased by \$5,668,171 as of September 30, 2023, compared to December 31, 2022. The Association's debt as a percentage of members' equity was 5.41:1 as of September 30, 2023, compared to 5.12:1 as of December 31, 2022.

Farm Credit Administration regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of September 30, 2023, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements

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

Relationship With the Farm Credit Bank of Texas

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

The annual and quarterly stockholder reports of the Bank can be found at the Bank's website at www.farmcreditbank.com.

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Plains Land Bank, FLCA, 1616 S. Kentucky St., Suite C250, Amarillo, Texas 79102-5210 or calling (806) 331-0926. The annual and quarterly stockholder reports for the Association are also available on its website at www.plainslandbank.com. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing balvis@plainslandbank.com.

PLAINS LAND BANK, FLCA

BALANCE SHEET

	September 30, 2023 (unaudited)	December 31, 2022
<u>ASSETS</u>		
Cash	\$ 3,710	\$ 7,026
Loans	1,031,192,231	952,871,122
Less: allowance for credit losses on loans	2,410,201	2,103,114
Net loans	1,028,782,030	950,768,008
Accrued interest receivable	25,851,200	19,264,965
Investment in and receivable from the Farm		
Credit Bank of Texas:		
Capital stock	17,813,545	17,906,140
Other	2,261,864	2,457,569
Premises and equipment, net	2,410,636	2,424,353
Other assets	444,220	499,174
Total assets	\$ 1,077,567,205	\$ 993,327,235
<u>LIABILITIES</u>		
Note payable to the Farm Credit Bank of Texas	\$ 903,788,210	\$ 823,977,823
Accrued interest payable	2,782,646	2,250,424
Drafts outstanding	22,311	288,319
Other liabilities	2,904,220	4,409,022
Total liabilities	909,497,387	830,925,588
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	2,335,225	2,267,000
Unallocated retained earnings	165,467,194	159,833,480
Accumulated other comprehensive income	267,399	301,167
Total members' equity	168,069,818	162,401,647
Total liabilities and members' equity	\$ 1,077,567,205	\$ 993,327,235

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

PLAINS LAND BANK, FLCA

STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<u>INTEREST INCOME</u>				
Loans	\$ 15,371,083	\$ 12,021,082	\$ 44,204,785	\$ 33,203,674
<u>INTEREST EXPENSE</u>				
Note payable to the Farm Credit Bank of Texas	8,364,014	5,525,232	23,252,134	14,295,078
Net interest income	7,007,069	6,495,850	20,952,651	18,908,596
<u>(REVERSAL OF)</u>				
<u>PROVISION FOR CREDIT LOSSES</u>				
	(51,540)	75,866	83,422	(8,054)
Net interest income after provision for credit losses	7,058,609	6,419,984	20,869,229	18,916,650
<u>NONINTEREST INCOME</u>				
Income from the Farm Credit Bank of Texas:				
Patronage income	(506,610)	1,417,227	2,690,196	4,192,490
Loan fees	46,547	30,910	153,015	110,716
Financially related services income	1,159	1,308	6,534	6,534
Gain on sale of premises and equipment, net	-	9,446	24,900	144,234
Other noninterest income	-	-	60,361	70,981
Total noninterest income	(458,904)	1,458,891	2,935,006	4,524,955
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	1,218,198	1,052,332	3,717,294	3,294,307
Directors' expense	64,544	67,270	342,645	244,005
Purchased services	176,276	133,225	437,229	515,395
Travel	45,500	43,342	140,309	143,645
Occupancy and equipment	136,711	144,950	445,008	394,159
Communications	27,670	26,817	77,785	85,672
Advertising	103,853	84,553	308,288	294,180
Public and member relations	51,934	47,330	233,469	174,806
Supervisory and exam expense	97,280	83,725	264,730	241,654
Insurance Fund premiums	381,934	386,110	1,117,681	1,190,432
Other noninterest expense	78,772	123,284	331,369	264,338
Total noninterest expenses	2,382,672	2,192,938	7,415,807	6,842,593
Income before income taxes	4,217,033	5,685,937	16,388,428	16,599,012
<u>NET INCOME</u>				
	4,217,033	5,685,937	16,388,428	16,599,012
Other comprehensive loss:				
Change in postretirement benefit plans	(11,256)	(2,608)	(33,768)	(7,824)
<u>COMPREHENSIVE INCOME</u>	\$ 4,205,777	\$ 5,683,329	\$ 16,354,660	\$ 16,591,188

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

PLAINS LAND BANK, FLCA

STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	<u>Capital Stock/ Participation Certificates</u>	<u>Unallocated Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
Balance at December 31, 2021	\$ 2,188,585	\$ 147,232,063	\$ 108,341	\$ 149,528,989
Comprehensive income	-	16,599,012	(7,824)	16,591,188
Capital stock/participation certificates and allocated retained earnings issued	274,880	-	-	274,880
Capital stock/participation certificates and allocated retained earnings retired	(204,905)	-	-	(204,905)
Patronage refunds:				
Cash	-	(9,200,000)	-	(9,200,000)
Balance at September 30, 2022	<u>\$ 2,258,560</u>	<u>\$ 154,631,075</u>	<u>\$ 100,517</u>	<u>\$ 156,990,152</u>
Balance at December 31, 2022	\$ 2,267,000	\$ 159,833,480	\$ 301,167	\$ 162,401,647
Cumulative effect of change in accounting principle (Note 1)	-	(254,714)	-	(254,714)
Balance at January 1, 2023	2,267,000	159,578,766	301,167	162,146,933
Comprehensive income	-	16,388,428	(33,768)	16,354,660
Capital stock/participation certificates and allocated retained earnings issued	228,280	-	-	228,280
Capital stock/participation certificates and allocated retained earnings retired	(160,055)	-	-	(160,055)
Patronage refunds:				
Cash	-	(10,500,000)	-	(10,500,000)
Balance at September 30, 2023	<u>\$ 2,335,225</u>	<u>\$ 165,467,194</u>	<u>\$ 267,399</u>	<u>\$ 168,069,818</u>

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

PLAINS LAND BANK, FLCA
NOTES TO THE FINANCIAL STATEMENTS
(unaudited)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Plains Land Bank, FLCA (Federal Land Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Armstrong, Briscoe, Carson, Floyd, Gray, Hale, the southwest portion of Hall, Hansford, Hemphill, Hutchinson, Lipscomb, Motley, Ochiltrie, Oldham, Potter, Randall, and Roberts in the state of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

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

In the opinion of management, the 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 to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

Recently Adopted Accounting Pronouncements

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 credit losses. This guidance replaced the current incurred loss impairment methodology with a single allowance framework that estimates the current expected credit losses (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. In addition, the guidance amends existing impairment guidance for held-to-maturity and available-for-sale investments to incorporate an allowance for credit losses related to these securities, which will allow for the reversal of credit impairments in the event that the credit of an issuer improves.

Also adopted effective January 1, 2023, was the updated guidance 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 on a prospective basis.

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

	December 31, 2022	CECL adoption impact	January 1, 2023
Assets:			
Allowance for credit losses on loans	\$ 2,103,114	\$ 240,474	\$ 2,343,588
Liabilities:			
Allowance for credit losses on unfunded commitments	\$ 96,288	\$ 14,240	\$ 110,528
Retained earnings:			
Unallocated retained earnings, net of tax	\$ 159,833,480	\$ (254,714)	\$ 159,578,766

Loans and Allowance for Credit Losses

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

Nonaccrual Loans

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

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

When loans are in nonaccrual status, interest payments received in cash are generally recognized as interest income if the collectability of the loan principal is fully expected and certain other criteria are met. Otherwise, payments received on nonaccrual loans are applied against the recorded investment in the loan asset. Nonaccrual loans are returned to accrual status if all contractual principal and interest is current, the borrower is fully expected to fulfill the contractual repayments terms and after remaining current as to principal and interest for a sustained period or having 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 Balance Sheets. The Association also elected to not estimate an allowance on interest receivable balances because the nonaccrual policies in place provide for the accrual of interest to cease on a timely basis when all contractual amounts are not expected.

Loan Modifications to Borrowers Experiencing Financial Difficulty

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

Collateral Dependent Loans

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

Allowance for Credit Losses

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

- the allowance for credit losses on loans (ACLL)
- the allowance for credit losses on 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. Loans are evaluated on the amortized cost basis, including premiums, discounts and fair value hedge accounting adjustments.

The Association employs a disciplined process and methodology to establish its ACLL that has two basic components: first, an asset-specific component involving individual loans that do not share risk characteristics with other loans and the measurement of expected

credit losses for such individual loans; and second, a pooled component for estimated expected credit losses for pools of loans that share similar risk characteristics.

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

In estimating the component of the ACLL that share common risk characteristics, loans are evaluated collectively and segregated into loan pools considering the risk associated with the specific pool. Relevant risk characteristics include loan type, commodity, credit quality rating, delinquency category or business segment or a combination of these classes. The allowance is determined based on a quantitative calculation of the expected life-of-loan loss percentage for each loan category by considering the probability of default, based on the migration of loans from performing to loss by credit quality rating or delinquency buckets using historical life-of-loan analysis periods for loan types, and the severity of loss, based on the aggregate net lifetime losses incurred per loan pool.

The component of the ACLL also considers factors for each loan pool to adjust for differences between the historical period used to calculate historical default and loss severity rates and expected conditions over the remaining lives of the loans in the portfolio related to:

- Lending policies and procedures;
- National, regional and local economic business conditions and developments that affect the collectability of the portfolio, including the condition of various markets;
- Nature of the loan portfolio, including the terms of the loans;
- Experience, ability and depth of the lending management and other relevant staff;
- Volume and severity of past due and adversely classified or graded loans and the volume of nonaccrual loans;
- Quality of the loan review and process;
- Value of underlying collateral for collateral-dependent loans;
- Existence and effect of any concentrations of credit and changes in the level of such concentrations; and
- Effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio.

The Association uses multiple scenarios over reasonable and supportable forecast period of two years. Subsequent to the forecast period, the Association reverts to long run historical loss experience beyond the two years on a straight-line basis to inform the estimate of losses for the remaining contractual life of the loan portfolio.

The economic forecasts incorporate macroeconomic variables, including U.S. unemployment rate, U.S. BBB Spread, and Dow Jones Total U.S. Stock Market Index. Also considered are loan and borrower characteristics, such as internal risk ratings, delinquency status, collateral type, and the remaining term of the loan, adjusted for expected prepayments.

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

Prior to January 1, 2023, the allowance for loan losses was maintained at a level considered adequate to provide for probable losses existing in and inherent in the loan portfolio. The allowance was based on a periodic evaluation of the loan portfolio in which numerous factors are considered, including economic conditions, collateral values, borrowers' financial conditions, loan portfolio composition and prior loan loss experience. The allowance for loan losses encompassed various judgments, evaluations and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity would cause these various judgments, evaluations and appraisals to change over time. Management considered a number of factors in determining and supporting the levels of the allowances for loan losses, which include, but are not limited to, the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

Allowance for Credit Losses on Unfunded Commitments

The Association evaluates the need for an allowance for credit losses on unfunded commitments under CECL and, if required, an amount is recognized and included in “other liabilities” in the Balance Sheet. The amount of expected losses is determined by calculating a commitment usage factor over the contractual period for exposures that are not unconditionally cancellable by the Association and applying the loss factors used in the ACLL methodology to the results of the usage calculation. No allowance for credit losses are recorded for commitments that are unconditionally cancellable.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	September 30, 2023	December 31, 2022
Production agriculture:		
Real estate mortgage	\$ 898,248,647	\$ 837,434,250
Production and intermediate-term	14,033,995	6,637,358
Agribusiness:		
Processing and marketing	36,729,910	35,189,049
Farm-related business	18,680,261	16,627,960
Loans to cooperatives	8,269,514	6,105,306
Rural residential real estate	18,962,382	18,800,883
Energy	15,252,595	14,200,148
Communication	12,977,127	13,172,300
Agricultural export finance	4,800,676	2,237,859
Water and waste-water	3,237,124	2,466,009
Total	\$ 1,031,192,231	\$ 952,871,122

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

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Agribusiness	\$ 42,597,465	\$ -	\$ -	\$ -	\$ 42,597,465
Real estate mortgage	11,487,290	38,884,629	6,632,250	-	18,119,540	38,884,629
Energy	15,252,595	-	-	-	15,252,595	-
Production and intermediate-term	14,033,995	-	-	-	14,033,995	-
Communication	12,977,127	-	-	-	12,977,127	-
Agricultural export finance	4,800,676	-	-	-	4,800,676	-
Water and waste-water	3,237,124	-	-	-	3,237,124	-
Rural residential real estate	415,164	536,023	-	-	415,164	536,023
Total	\$ 104,801,436	\$ 39,420,652	\$ 6,632,250	\$ -	\$ 111,433,686	\$ 39,420,652

Credit Quality

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

The Association uses a two-dimensional risk rating model based on an internally generated combined System risk rating guidance that incorporates a 14-point probability of default rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default. Probability of default is the probability that a borrower will experience a default during the life of the loan. The loss given default is management’s estimate as to the anticipated principal loss on a specific loan assuming default occurs during the remaining life of the loan. A default is considered to have occurred if the lender believes the borrower will not be

able to pay its obligation in full or the borrower or the loan is classified nonaccrual. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses and risks in a particular relationship. The Association reviews, at least on an annual basis or when a credit action is taken, the probability of default category.

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

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

The following table presents credit quality indicators by loan type and the related principal balance as of September 30, 2023:

	Term Loans				Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
	Amortized Cost by Origination Year						
	2023	2022	2021	Prior			
Real estate mortgage							
Acceptable	\$ 103,535,563	\$ 165,340,241	\$ 177,425,262	\$ 398,643,630	\$ 39,506,283	\$ 4,086,272	\$ 888,537,251
OAEM	-	158,985	-	89,131	-	-	248,116
Substandard/Doubtful	-	2,069,392	4,598,363	2,396,010	-	399,515	9,463,280
	<u>\$ 103,535,563</u>	<u>\$ 167,568,618</u>	<u>\$ 182,023,625</u>	<u>\$ 401,128,771</u>	<u>\$ 39,506,283</u>	<u>\$ 4,485,787</u>	<u>\$ 898,248,647</u>
Current period gross charge-offs	-	22,107	33,793	6,530	-	-	62,430
Agribusiness							
Acceptable	\$ 2,926,338	\$ 19,659,355	\$ 9,943,315	\$ 16,831,091	\$ 12,543,006	\$ -	\$ 61,903,105
OAEM	-	1,500,207	-	-	276,373	-	1,776,580
Substandard/Doubtful	-	-	-	-	-	-	-
	<u>\$ 2,926,338</u>	<u>\$ 21,159,562</u>	<u>\$ 9,943,315</u>	<u>\$ 16,831,091</u>	<u>\$ 12,819,379</u>	<u>\$ -</u>	<u>\$ 63,679,685</u>
Current period gross charge-offs	-	-	-	-	-	-	-
Rural residential real estate							
Acceptable	\$ 1,615,586	\$ 4,717,411	\$ 3,985,235	\$ 8,498,553	\$ -	\$ -	\$ 18,816,785
OAEM	-	-	145,597	-	-	-	145,597
Substandard/Doubtful	-	-	-	-	-	-	-
	<u>\$ 1,615,586</u>	<u>\$ 4,717,411</u>	<u>\$ 4,130,832</u>	<u>\$ 8,498,553</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,962,382</u>
Current period gross charge-offs	-	-	-	-	-	-	-
Energy							
Acceptable	\$ 1,997,410	\$ -	\$ -	\$ 12,515,643	\$ 235,828	\$ -	\$ 14,748,881
OAEM	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	503,714	-	-	503,714
	<u>\$ 1,997,410</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,019,357</u>	<u>\$ 235,828</u>	<u>\$ -</u>	<u>\$ 15,252,595</u>
Current period gross charge-offs	-	-	-	-	-	-	-
Production and intermediate-term							
Acceptable	\$ -	\$ 2,507,884	\$ -	\$ 956,568	\$ 10,569,543	\$ -	\$ 14,033,995
OAEM	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ 2,507,884</u>	<u>\$ -</u>	<u>\$ 956,568</u>	<u>\$ 10,569,543</u>	<u>\$ -</u>	<u>\$ 14,033,995</u>
Current period gross charge-offs	-	-	-	-	-	-	-
Communications							
Acceptable	\$ 3,499,936	\$ 1,497,047	\$ -	\$ 7,432,058	\$ -	\$ -	\$ 12,429,041
OAEM	-	-	-	548,086	-	-	548,086
Substandard/Doubtful	-	-	-	-	-	-	-
	<u>\$ 3,499,936</u>	<u>\$ 1,497,047</u>	<u>\$ -</u>	<u>\$ 7,980,144</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,977,127</u>
Current period gross charge-offs	-	-	-	-	-	-	-
Agricultural export finance							
Acceptable	\$ 4,413,377	\$ -	\$ -	\$ -	\$ 387,299	\$ -	\$ 4,800,676
OAEM	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-
	<u>\$ 4,413,377</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 387,299</u>	<u>\$ -</u>	<u>\$ 4,800,676</u>
Current period gross charge-offs	-	-	-	-	-	-	-
Water and waste-water							
Acceptable	\$ -	\$ -	\$ 1,697,830	\$ -	\$ 1,539,294	\$ -	\$ 3,237,124
OAEM	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,697,830</u>	<u>\$ -</u>	<u>\$ 1,539,294</u>	<u>\$ -</u>	<u>\$ 3,237,124</u>
Current period gross charge-offs	-	-	-	-	-	-	-
Total Loans							
Acceptable	\$ 117,988,210	\$ 193,721,938	\$ 193,051,642	\$ 444,877,543	\$ 64,781,253	\$ 4,086,272	\$ 1,018,506,858
OAEM	-	1,659,192	145,597	637,217	276,373	-	2,718,379
Substandard/Doubtful	-	2,069,392	4,598,363	2,899,724	-	399,515	9,966,994
	<u>\$ 117,988,210</u>	<u>\$ 197,450,522</u>	<u>\$ 197,795,602</u>	<u>\$ 448,414,484</u>	<u>\$ 65,057,626</u>	<u>\$ 4,485,787</u>	<u>\$ 1,031,192,231</u>
Total current period gross charge-offs	<u>\$ -</u>	<u>\$ 22,107</u>	<u>\$ 33,793</u>	<u>\$ 6,530</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 62,430</u>

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

	<u>September 30,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
Real estate mortgage		
Acceptable	98.9 %	99.5 %
OAEM	-	-
Substandard/doubtful	1.1	0.5
	<u>100.0</u>	<u>100.0</u>
Agribusiness		
Acceptable	97.2	100.0
OAEM	2.8	-
Substandard/doubtful	-	-
	<u>100.0</u>	<u>100.0</u>
Rural residential real estate		
Acceptable	99.2	100.0
OAEM	0.8	-
Substandard/doubtful	-	-
	<u>100.0</u>	<u>100.0</u>
Energy		
Acceptable	96.7	92.9
OAEM	-	-
Substandard/doubtful	3.3	7.1
	<u>100.0</u>	<u>100.0</u>
Production and intermediate-term		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<u>100.0</u>	<u>100.0</u>
Communication		
Acceptable	95.8	100.0
OAEM	4.2	-
Substandard/doubtful	-	-
	<u>100.0</u>	<u>100.0</u>
Agricultural export finance		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<u>100.0</u>	<u>100.0</u>
Water and waste-water		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<u>100.0</u>	<u>100.0</u>
Total loans		
Acceptable	98.7	99.5
OAEM	0.3	-
Substandard/doubtful	1.0	0.5
	<u>100.0 %</u>	<u>100.0 %</u>

Accrued interest receivable on loans of \$25,851,200 and \$19,264,965 as of September 30, 2023, and December 31, 2022, respectively have been excluded from the amortized cost of loans and reported separately in the Balance Sheet.

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

	September 30, 2023	December 31, 2022
Nonaccrual loans:		
Real estate mortgage	\$ 4,026,424	\$ -
Energy	503,714	1,005,885
Total nonaccrual loans	<u>\$ 4,530,138</u>	<u>\$ 1,005,885</u>
Accruing loans 90 days or more past due:		
Real estate mortgage	\$ 728,341	\$ -
Total accruing loans 90 days or more past due	<u>\$ 728,341</u>	<u>\$ -</u>
Total nonperforming assets	<u>\$ 5,258,479</u>	<u>\$ 1,005,885</u>
Nonaccrual loans as a percentage of total loans	0.44%	0.11%
Nonperforming assets as a percentage of total loans and other property owned	0.51%	0.11%
Nonperforming assets as a percentage of capital	3.13%	0.62%

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

	September 30, 2023			Interest Income Recognized	
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2023
Nonaccrual loans:					
Real estate mortgage	\$ -	\$ 4,026,424	\$ 4,026,424	\$ -	\$ -
Energy	503,714	-	503,714	-	-
Total nonaccrual loans	<u>\$ 503,714</u>	<u>\$ 4,026,424</u>	<u>\$ 4,530,138</u>	<u>\$ -</u>	<u>\$ -</u>

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

September 30, 2023	30-89	90 Days	Total	Not Past Due or	Total	Recorded Investment
	Days	or More	Past	Less Than 30		
	Past Due	Past Due	Past Due	Days Past Due	Loans	>90 Days and Accruing
Real estate mortgage	\$ 1,875,113	\$ 4,695,207	\$ 6,570,320	\$ 891,678,327	\$ 898,248,647	\$ 728,341
Processing and marketing	-	-	-	36,729,910	36,729,910	-
Rural residential real estate	-	-	-	18,962,382	18,962,382	-
Farm-related business	-	-	-	18,680,261	18,680,261	-
Energy	-	-	-	15,252,595	15,252,595	-
Production and intermediate term	-	-	-	14,033,995	14,033,995	-
Communication	-	-	-	12,977,127	12,977,127	-
Loans to cooperatives	-	-	-	8,269,514	8,269,514	-
Agricultural export finance	-	-	-	4,800,676	4,800,676	-
Water and waste-water	-	-	-	3,237,124	3,237,124	-
Total	<u>\$ 1,875,113</u>	<u>\$ 4,695,207</u>	<u>\$ 6,570,320</u>	<u>\$ 1,024,621,911</u>	<u>\$ 1,031,192,231</u>	<u>\$ 728,341</u>

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

December 31, 2022	30-89	90 Days	Total	Not Past Due or	Total	Recorded Investment
	Days	or More	Past	Less Than 30		
	Past Due	Past Due	Past Due	Days Past Due	Loans	>90 Days and Accruing
Real estate mortgage	\$ 2,392,781	\$ -	\$ 2,392,781	\$ 853,582,676	\$ 855,975,457	\$ -
Processing and marketing	-	-	-	35,429,252	35,429,252	-
Rural residential real estate	-	-	-	18,885,149	18,885,149	-
Farm-related business	-	-	-	16,735,924	16,735,924	-
Energy	-	957	957	14,352,033	14,352,990	-
Production and intermediate term	-	-	-	6,678,123	6,678,123	-
Communication	-	-	-	13,209,305	13,209,305	-
Loans to cooperatives	-	-	-	6,136,340	6,136,340	-
Agricultural export finance	-	-	-	2,263,995	2,263,995	-
Water and waste-water	-	-	-	2,469,552	2,469,552	-
Total	<u>\$ 2,392,781</u>	<u>\$ 957</u>	<u>\$ 2,393,738</u>	<u>\$ 969,742,349</u>	<u>\$ 972,136,087</u>	<u>\$ -</u>

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

Allowance for Credit Losses

The credit risk rating methodology is a key component of the Association's allowance for credit losses evaluation and is generally incorporated into the Association's loan underwriting standards and internal lending limits. In addition, borrower and commodity concentration lending and leasing limits have been established by the Association to manage credit exposure. The regulatory limit to a single borrower or lessee is 15 percent of the Association's lending and leasing limit base but the Association's board of directors have generally 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 on loans by portfolio segment are as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Water and Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Total
Allowance for Credit Losses on Loans:									
Balance at June 30, 2023	\$ 2,211,543	\$ 6,256	\$ 74,887	\$ 7,836	\$ 169,945	\$ 1,359	\$ 44,474	\$ 1,591	\$ 2,517,891
Charge-offs	(62,430)	-	-	-	-	-	-	-	(62,430)
Recoveries	-	-	-	-	34	-	-	-	34
Provision for (reversal of) credit losses	(49,875)	738	1,928	6,139	(11,296)	703	6,396	(27)	(45,294)
Other	-	-	-	-	-	-	-	-	-
Balance at September 30, 2023	\$ 2,099,238	\$ 6,994	\$ 76,815	\$ 13,975	\$ 158,683	\$ 2,062	\$ 50,870	\$ 1,564	\$ 2,410,201
Balance at December 31, 2022	\$ 1,529,278	\$ 19,406	\$ 237,504	\$ 21,524	\$ 253,991	\$ 6,557	\$ 31,616	\$ 3,238	\$ 2,103,114
Cumulative effect of a change in accounting principle	401,588	(15,736)	(134,133)	(15,296)	(6,039)	(4,656)	16,251	(1,505)	240,474
Balance at January 1, 2023	\$ 1,930,866	\$ 3,670	\$ 103,371	\$ 6,228	\$ 247,952	\$ 1,901	\$ 47,867	\$ 1,733	\$ 2,343,588
Charge-offs	(62,430)	-	-	-	-	-	-	-	(62,430)
Recoveries	-	-	-	-	3,711	-	-	-	3,711
Provision for (reversal of) credit losses	230,802	3,324	(26,556)	7,747	(92,980)	161	3,003	(169)	125,332
Other	-	-	-	-	-	-	-	-	-
Balance at September 30, 2023	\$ 2,099,238	\$ 6,994	\$ 76,815	\$ 13,975	\$ 158,683	\$ 2,062	\$ 50,870	\$ 1,564	\$ 2,410,201
Balance at June 30, 2022	\$ 1,556,085	\$ 17,274	\$ 229,737	\$ 21,487	\$ 439,544	\$ 9,683	\$ 30,177	\$ 6,472	\$ 2,310,459
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-
Provision for (reversal of) credit losses	(76,390)	(361)	26,069	120	126,282	(602)	1,213	(465)	75,866
Other	(236)	(3,868)	(15,587)	-	6	(597)	-	(676)	(20,958)
Balance at September 30, 2022	\$ 1,479,459	\$ 13,045	\$ 240,219	\$ 21,607	\$ 565,832	\$ 8,484	\$ 31,390	\$ 5,331	\$ 2,365,367
Balance at December 31, 2021	\$ 1,666,611	\$ 13,512	\$ 187,515	\$ 21,384	\$ 450,054	\$ 5,773	\$ 25,857	\$ 5,294	\$ 2,376,000
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-
Provision for (reversal of) credit losses	(185,381)	1,289	54,841	223	115,800	(522)	5,533	163	(8,054)
Other	(1,771)	(1,756)	(2,137)	-	(22)	3,233	-	(126)	(2,579)
Balance at September 30, 2022	\$ 1,479,459	\$ 13,045	\$ 240,219	\$ 21,607	\$ 565,832	\$ 8,484	\$ 31,390	\$ 5,331	\$ 2,365,367
Allowance for Unfunded Commitments:									
Balance at June 30, 2023	\$ 33,560	\$ 4,640	\$ 34,030	\$ -	\$ 640	\$ 407	\$ -	\$ 1,587	\$ 74,864
Provision for unfunded commitments	(3,548)	(448)	(3,384)	-	(90)	942	-	282	(6,246)
Balance at September 30, 2023	\$ 30,012	\$ 4,192	\$ 30,646	\$ -	\$ 550	\$ 1,349	\$ -	\$ 1,869	\$ 68,618
Balance at December 31, 2022	\$ 10,868	\$ 7,035	\$ 70,498	\$ -	\$ 896	\$ 3,175	\$ -	\$ 3,816	\$ 96,288
Cumulative effect of a change in accounting principle	20,135	(4,587)	2,920	-	(158)	(2,660)	-	(1,410)	14,240
Balance at January 1, 2023	31,003	2,448	73,418	-	738	515	-	2,406	110,528
Provision for unfunded commitments	(991)	1,744	(42,772)	-	(188)	834	-	(537)	(41,910)
Balance at September 30, 2023	\$ 30,012	\$ 4,192	\$ 30,646	\$ -	\$ 550	\$ 1,349	\$ -	\$ 1,869	\$ 68,618
Balance at June 30, 2022	\$ 9,292	\$ 6,673	\$ 35,856	\$ -	\$ 978	\$ 1,394	\$ -	\$ 1,239	\$ 55,432
Provision for unfunded commitments	237	3,868	15,585	-	(5)	597	-	676	20,958
Balance at September 30, 2022	\$ 9,529	\$ 10,541	\$ 51,441	\$ -	\$ 973	\$ 1,991	\$ -	\$ 1,915	\$ 76,390
Balance at December 31, 2021	\$ 7,583	\$ 8,785	\$ 49,304	\$ -	\$ 951	\$ 5,224	\$ 175	\$ 1,789	\$ 73,811
Provision for unfunded commitments	1,946	1,756	2,137	-	22	(3,233)	(175)	126	2,579
Balance at September 30, 2022	\$ 9,529	\$ 10,541	\$ 51,441	\$ -	\$ 973	\$ 1,991	\$ -	\$ 1,915	\$ 76,390

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

Troubled Debt Restructurings

Prior to January 1, 2023, the adoption of updated FASB guidance on loan modifications, a restructuring of a loan constituted a troubled debt restructuring, also known as formally restructured, if the creditor for economic or legal reasons related to the borrower's financial difficulties granted a concession to the borrower that it would not otherwise consider. Concessions varied by program and were borrower-specific and could include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, the principal may have been forgiven. When a restructured loan constituted a troubled debt restructuring, these loans were included within the Association's impaired loans under nonaccrual or accruing restructured loans. As of September 30, 2022, the Association had no troubled debt restructured loans. The following table provides information on outstanding loans restructured in troubled debt restructurings:

The following table presents additional information regarding troubled debt restructurings that occurred during the period:

	December 31, 2022	
	Loans Modified as Troubled Debt Restructurings	Troubled Debt Restructurings in Nonaccrual Status*
Energy	\$ 337,706	\$ 337,706
Total	\$ 337,706	\$ 337,706

* Represents the portion of loans modified as troubled debt restructurings that were in nonaccrual status.

There were no loan modifications made to borrowers experiencing financial difficulty in the three months ended September 30, 2023. During the nine months ended September 30, 2023, the Association modified a loan to a borrower experiencing financial difficulty in the real estate mortgage sector with an amortized cost of \$399,515 as of September 30, 2023, through an interest rate reduction and term extension. The interest rate was reduced from 8.81 percent to 8.58 percent, and the term was extended 1,826 days. Accrued interest receivable related to this loan modification was \$14,386 on September 30, 2023. Subsequent to this modification, the loan has not experienced default and as of September 30, 2023, is current in all required payments. The Association has no additional commitments to lend to this borrower as of September 30, 2023.

NOTE 3 —LEASES:

The components of lease expense were as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Operating lease cost	\$ 26,302	\$ 22,451	\$ 74,852	\$ 68,254
Net lease cost	\$ 26,302	\$ 22,451	\$ 74,852	\$ 68,254

Other information related to leases was as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows for operating leases	\$ 27,530	\$ 23,298	\$ 78,027	\$ 70,263
Right-of-use assets obtained in exchange for new lease obligations:				
Operating leases			\$ 152,318	\$ 196,816

Lease term and discount rate are as follows:

	September 30, 2023	December 31, 2022
Weighted average remaining lease term in years		
Operating leases	1.64	2.23
Weighted average discount rate		
Operating leases	3.33%	2.46%

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

	Total
2023	\$ 25,929
2024	101,720
2025	38,467
2026	-
Thereafter	-
Total lease payments	\$ 166,116
Less: interest	4,240
Total	\$ 161,876

NOTE 4 — CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the Association's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an Association's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Minimums with Buffer	As of September 30, 2023	As of December 31, 2022
Common equity tier 1 ratio	7.00%	13.78%	14.02%
Tier 1 capital ratio	8.50%	13.78%	14.02%
Total capital ratio	10.50%	14.03%	14.26%
Permanent capital ratio	7.00%	13.82%	14.05%
Non-risk-adjusted:			
Tier 1 leverage ratio	5.00%	13.94%	14.23%
UREE leverage ratio	1.50%	13.71%	14.00%

The details for the amounts used in the calculation of the regulatory capital ratios as of September 30, 2023, and December 31, 2022:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
September 30, 2023				
Numerator:				
Unallocated retained earnings	\$ 161,050,540	\$ 161,050,540	\$ 161,050,540	\$ 161,050,540
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	2,322,551	2,322,551	2,322,551	2,322,551
Allowance for credit losses on loans and reserve for credit losses subject to certain limitations	-	-	2,588,465	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(17,835,022)	(17,835,022)	(17,835,022)	(17,835,022)
	<u>\$ 145,538,069</u>	<u>\$ 145,538,069</u>	<u>\$ 148,126,534</u>	<u>\$ 145,538,069</u>
Denominator:				
Risk-adjusted assets excluding allowance	\$ 1,073,656,273	\$ 1,073,656,273	\$ 1,073,656,273	\$ 1,073,656,273
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(17,835,022)	(17,835,022)	(17,835,022)	(17,835,022)
Allowance for loan losses	-	-	-	(2,513,740)
	<u>\$ 1,055,821,251</u>	<u>\$ 1,055,821,251</u>	<u>\$ 1,055,821,251</u>	<u>\$ 1,053,307,511</u>
December 31, 2022				
Numerator:				
Unallocated retained earnings	\$ 153,284,078	\$ 153,284,078	\$ 153,284,078	\$ 153,284,078
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	2,263,200	2,263,200	2,263,200	2,263,200
Allowance for credit losses on loans and reserve for credit losses subject to certain limitations	-	-	2,431,602	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(16,535,560)	(16,535,560)	(16,535,560)	(16,535,560)
	<u>\$ 139,011,718</u>	<u>\$ 139,011,718</u>	<u>\$ 141,443,320</u>	<u>\$ 139,011,718</u>
Denominator:				
Risk-adjusted assets excluding allowance	\$ 1,008,218,437	\$ 1,008,218,437	\$ 1,008,218,437	\$ 1,008,218,437
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(16,535,560)	(16,535,560)	(16,535,560)	(16,535,560)
Allowance for loan losses	-	-	-	(2,354,673)
	<u>\$ 991,682,877</u>	<u>\$ 991,682,877</u>	<u>\$ 991,682,877</u>	<u>\$ 989,328,204</u>

	September 30, 2022		December 31, 2022	
	Tier 1 leverage ratio	UREE leverage ratio	Tier 1 leverage ratio	UREE leverage ratio
Numerator:				
Unallocated retained earnings	\$ 161,050,540	\$ 161,050,540	\$ 153,284,078	\$ 153,284,078
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	2,322,551	-	2,263,200	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(17,835,022)	(17,835,022)	(16,535,560)	(16,535,560)
	<u>\$ 145,538,069</u>	<u>\$ 143,215,518</u>	<u>\$ 139,011,718</u>	<u>\$ 136,748,518</u>
Denominator:				
Total Assets	\$ 1,065,061,526	\$ 1,065,061,526	\$ 997,091,920	\$ 997,091,920
Regulatory Adjustments and Deductions:				
Regulatory deductions included in tier 1 capital	(20,717,165)	(20,717,165)	(20,302,087)	(20,302,087)
	<u>\$ 1,044,344,361</u>	<u>\$ 1,044,344,361</u>	<u>\$ 976,789,833</u>	<u>\$ 976,789,833</u>

The following tables present the activity in the accumulated other comprehensive income by component:

	Accumulated other comprehensive income
Balance at June 30, 2023	\$ 278,655
Other comprehensive loss before reclassifications	(11,256)
Net current period other comprehensive loss	(11,256)
Balance at September 30, 2023	<u>\$ 267,399</u>
Balance at January 1, 2023	\$ 301,167
Other comprehensive loss before reclassifications	(33,768)
Net current period other comprehensive loss	(33,768)
Balance at September 30, 2023	<u>\$ 267,399</u>
	Accumulated other comprehensive income
Balance at June 30, 2022	\$ 103,125
Other comprehensive loss before reclassifications	(2,608)
Net current period other comprehensive loss	(2,608)
Balance at September 30, 2022	<u>\$ 100,517</u>
Balance at January 1, 2022	\$ 108,341
Other comprehensive loss before reclassifications	(7,824)
Net current period other comprehensive loss	(7,824)
Balance at September 30, 2022	<u>\$ 100,517</u>

NOTE 5 — FAIR VALUE MEASUREMENTS:

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 13 in the 2022 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

September 30, 2023	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
Assets:					
Loans	\$ -	\$ -	\$ 347,551	\$ 347,551	\$ -
December 31, 2022					
	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
Assets:					
Loans	\$ -	\$ -	\$ 760,144	\$ 760,144	\$ -

Valuation Techniques

As more fully discussed in Note 13 to the 2022 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see the 2022 Annual Report to Stockholders.

Cash

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

Loans

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

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

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

Loans Evaluated for Impairment

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

Commitments to Extend Credit

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

NOTE 6 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the three and nine months ended September 30:

Three months ended September 30:

	Pension Benefits	
	2023	2022
Service cost	\$ 1,036	\$ 1,449
Interest cost	12,140	9,093
Amortization of prior service credits	(992)	(2,608)
Amortization of net actuarial gain	(10,264)	-
Net periodic benefit cost	<u>\$ 1,920</u>	<u>\$ 7,934</u>

Nine months ended September 30:

	Pension Benefits	
	2023	2022
Service cost	\$ 3,108	\$ 4,347
Interest cost	36,420	27,273
Amortization of prior service credits	(2,976)	(7,824)
Amortization of net actuarial gain	(30,792)	-
Net periodic benefit cost	<u>\$ 5,760</u>	<u>\$ 23,796</u>

The Association's liability for the unfunded accumulated obligation for these benefits as of September 30, 2023, was \$966,475 and is included in "other liabilities" on the Balance Sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item “other noninterest expense” in the Statements of Comprehensive Income.

The structure of the District’s defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The Association previously disclosed in its financial statements for the year ended December 31, 2022, that it expected to contribute \$70,395 to the District’s defined benefit pension plan in 2023. As of September 30, 2023, \$176,551 of contributions have been made. The Association presently anticipates contributing an additional \$58,850 to fund the defined benefit pension plan in 2023 for a total of \$235,401.

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:

The Association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

NOTE 8 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through November 8, 2023, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 8, 2023.