



Helping our Members Prosper

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# QUARTERLY REPORT

SEPTEMBER 2023

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## A MESSAGE TO OUR MEMBERS

### *Financial Highlights*

We are pleased to inform you of the Association's financial progress during the nine months ending September 30, 2023. The financial condition of the Association is sound. The Association remains capitalized to withstand adversity, sufficiently liquid to meet obligations as they come due, and able to earn profits to further enhance total shareholders' equity. This quarterly shareholder report was prepared under the oversight of the Audit Committee.

Loans increased by \$138.9 million in the nine months ended September 30, 2023. The increase is primarily due to new loans and advances on existing loans, offset by pay downs by members.

The note payable to CoBank, ACB (CoBank) increased \$80.9 million from year-end due to loan increases discussed above, partially offset by the receipt of 2022 CoBank patronage, and Association earnings.

The Association's third quarter 2023 net earnings were \$26.5 million, which is approximately \$4.4 million higher than the same period in the prior year.

Net interest income before the provision for credit losses increased \$4.7 million during the third quarter compared to the same period last year. The increase was primarily due to increased earnings on our capital and higher levels of accruing loan volume.

The Association adopted the Financial Accounting Standards Board (FASB) guidance entitled "Measurement of Credit Losses on Financial Instruments" which introduces the current expected credit losses (CECL) methodology to our allowance

for credit losses. The standard was implemented on January 1, 2023, and resulted in a \$7.7 million increase to our capital as a cumulative adjustment upon adoption.

The quarterly review of credit risk resulted in the Association recording a credit loss reversal of \$43 thousand in the third quarter 2023 compared to \$0.1 million provision for credit losses in the third quarter 2022.

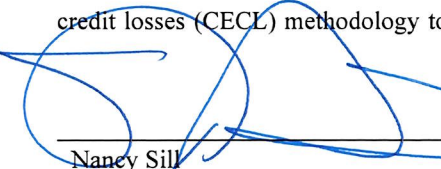
Non-interest expense increased approximately \$1.1 million during the third quarter of which \$0.8 million was an increase in salaries and benefits and \$0.3 million in Other Expenses.

Credit quality decreased slightly to 97.9% Acceptable/OAEM at September 30, 2023, compared to 98.5% at September 30, 2022. Nonaccrual loan volume is \$9.4 million and represents 0.2% of total loan volume. The volume of delinquent accounts, 1.3% of accrual loans and leases, remain low.


The Association advance conditional payment accounts, offering an interest rate up to 4.85% for the month of September, increased \$38.1 million from \$72.8 million at year-end to \$110.9 million at September 30, 2023.

### *Thank you*


To our Members, we appreciate the confidence you have placed in the Yosemite Farm Credit Team. It is a privilege to serve you. To our prospective Members, we welcome the opportunity to assist with your agricultural financing needs.



Nancy Sill  
Board Chair



Tracy V. Sparks  
President and CEO



Matthew McNelis  
Executive VP and CFO

The Stockholders' investment in the Association is materially affected by the financial condition and the results of operations of CoBank. The CoBank, FCB and CoBank District quarterly and annual reports are available free of charge by accessing CoBank's website, [www.Cobank.com](http://www.Cobank.com), or may be obtained at no charge by contacting us at 806 W. Monte Vista Avenue, P.O. Box 3278, Turlock California, 95381-3278 or by calling (209) 667-2366.

**YOSEMITE FARM CREDIT, ACA**  
**CONSOLIDATED STATEMENTS OF CONDITION**  
**September 30, 2023**  
**(\$ in thousands)**

	September 30, 2023	December 31, 2022
	(unaudited)	(audited)
<b>ASSETS</b>		
Loans	\$ 4,241,657	\$ 4,102,788
Less allowance for loan losses	5,997	12,471
Net loans	4,235,660	4,090,317
Cash	700	12,396
Investment securities - held-to-maturity	2,481	3,719
Accrued interest receivable	94,183	56,424
Investment in CoBank, ACB	103,591	105,703
Premises and equipment, net	18,601	18,792
Other assets	21,535	28,361
<b>Total assets</b>	<b>\$ 4,476,751</b>	<b>\$ 4,315,712</b>
<b>LIABILITIES</b>		
Note payable to CoBank, ACB	\$ 3,578,253	\$ 3,497,386
Advance conditional payments	110,916	72,797
Accrued interest payable	12,210	9,753
Patronage distribution payable	—	31,800
Other liabilities	10,585	13,016
<b>Total liabilities</b>	<b>3,711,964</b>	<b>3,624,752</b>
<b>Commitments and Contingencies</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock and participation certificates	1,912	1,943
Unallocated retained earnings	762,876	689,019
Accumulated other comprehensive loss	(1)	(2)
<b>Total shareholders' equity</b>	<b>764,787</b>	<b>690,960</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 4,476,751</b>	<b>\$ 4,315,712</b>

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

**YOSEMITE FARM CREDIT, ACA**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**September 30, 2023**  
**(\$ in thousands)**

	Quarter Ended 9/30/2023	Nine Months Ended 9/30/2023	Quarter Ended 9/30/2022	Nine Months Ended 9/30/2022
		(unaudited)	(unaudited)	(unaudited)
<b>INTEREST INCOME</b>				
Loans	\$ 69,781	\$ 196,195	\$ 47,268	\$ 118,489
Investment securities	32	109	48	141
<b>Total interest income</b>	<b>69,813</b>	<b>196,304</b>	<b>47,316</b>	<b>118,630</b>
<b>INTEREST EXPENSE</b>				
Note payable to CoBank, ACB	35,609	96,616	18,742	38,939
Advance conditional payments	1,331	3,519	376	578
<b>Total interest expense</b>	<b>36,940</b>	<b>100,135</b>	<b>19,118</b>	<b>39,517</b>
<b>Net interest income</b>	<b>32,873</b>	<b>96,169</b>	<b>28,198</b>	<b>79,113</b>
(Credit loss reversals) / provision for credit losses	(43)	998	138	1,451
<b>Net interest income after (credit loss reversals) / provision for credit losses</b>	<b>32,916</b>	<b>95,171</b>	<b>28,060</b>	<b>77,662</b>
<b>NON-INTEREST INCOME</b>				
Patronage distribution from Farm Credit Institutions	4,854	15,518	4,554	14,825
Financially related services income	17	79	28	103
Other non-interest income	469	893	150	664
<b>Total non-interest income</b>	<b>5,340</b>	<b>16,490</b>	<b>4,732</b>	<b>15,592</b>
<b>NON-INTEREST EXPENSE</b>				
Salaries and employee benefits	7,187	21,073	6,338	19,191
Occupancy and equipment	548	1,538	445	1,316
Farm Credit Insurance Fund premium	1,506	4,415	1,615	4,737
Other non-interest expense	2,531	7,579	2,263	6,674
<b>Total non-interest expense</b>	<b>11,772</b>	<b>34,605</b>	<b>10,661</b>	<b>31,918</b>
Income before income taxes	26,484	77,056	22,131	61,336
Provision for income taxes	—	2	—	2
<b>Net income</b>	<b>\$ 26,484</b>	<b>\$ 77,054</b>	<b>\$ 22,131</b>	<b>\$ 61,334</b>
<b>COMPREHENSIVE INCOME</b>				
Amortization of retirement credits	—	1	—	—
<b>Total comprehensive income</b>	<b>\$ 26,484</b>	<b>\$ 77,055</b>	<b>\$ 22,131</b>	<b>\$ 61,334</b>

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

**YOSEMITE FARM CREDIT, ACA**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**September 30, 2023**  
**(\$ in thousands)**

	Capital Stock & Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
<b>Balance at December 31, 2021</b>	\$ 1,966	\$ 632,914	\$ (1)	\$ 634,879
Comprehensive income		61,334		61,334
Stock and participation certificates issued	92			92
Stock and participation certificates retired	(100)			(100)
<b>Balance at September 30, 2022 (unaudited)</b>	<u>\$ 1,958</u>	<u>\$ 694,248</u>	<u>\$ (1)</u>	<u>\$ 696,205</u>
<b>Balance at December 31, 2022</b>	\$ 1,943	\$ 689,019	\$ (2)	\$ 690,960
Comprehensive income		77,054	1	77,055
Stock and participation certificates issued	74			74
Stock and participation certificates retired	(105)			(105)
Cumulative adjustment for adoption of the Credit loss accounting standard		7,704		7,704
Net patronage distribution		(10,901)		(10,901)
<b>Balance at September 30, 2023 (unaudited)</b>	<u>1,912</u>	<u>762,876</u>	<u>(1)</u>	<u>764,787</u>

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

**YOSEMITE FARM CREDIT, ACA**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**September 30, 2023**  
**(\$ in thousands)**

	Nine Months Ended September 30,	
	2023	2022
	(unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 77,054	\$ 61,334
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	998	1,451
Depreciation and amortization	940	866
Loss (Gain) on sale of premises and equipment	24	(10)
Stock patronage received from CoBank	(622)	(528)
Changes in operating assets and liabilities:		
Increase in accrued interest receivable	(37,759)	(24,386)
Decrease in other assets	6,733	4,416
Increase in accrued interest payable	2,457	4,184
Decrease in other liabilities	(2,199)	(979)
<b>Net cash provided by operating activities</b>	<b>47,626</b>	<b>46,348</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net increase in loans	(138,869)	(239,169)
Retirement of stock in CoBank	2,828	5,497
Payments received on investment securities	1,238	1,119
Purchase of premises and equipment, net	(773)	(591)
<b>Net cash used in investing activities</b>	<b>(135,576)</b>	<b>(233,144)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net draws on note payable to CoBank	80,867	203,818
Increase in advance conditional payments	38,119	9,165
Patronage distributions	(42,701)	(28,600)
Retirement of capital stock and participation certificates, net	(31)	(8)
<b>Net cash provided by financing activities</b>	<b>76,254</b>	<b>184,375</b>
<b>Net decrease in cash</b>	(11,696)	(2,421)
<b>Cash at beginning of period</b>	12,396	4,380
<b>Cash at end of period</b>	<b>\$ 700</b>	<b>\$ 1,959</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid for interest	\$ 97,678	\$ 35,333
Cash paid for income taxes	\$ 2	\$ 2
<b>SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Transfer of allowance to reserve for unfunded commitments	\$ (404)	\$ 20

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

**NOTES TO 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 Yosemite Farm Credit, ACA, 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 Stockholders Annual Report). These unaudited first quarter 2023 financial statements should be read in conjunction with the 2022 Annual Report to Stockholders.

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 or Issued Accounting Pronouncements**

On January 1, 2023 the Institution 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 balance sheet impact to the allowance for credit losses and capital upon adoption of this guidance on January 1, 2023:

(in millions)	December 31, 2022	CECL adoption impact	January 1, 2023
<b>Assets:</b>			
Allowance for credit losses on loans	\$ 12,471	\$ (7,068)	\$ 5,403
Allowance for credit losses on investments	—	—	—
Deferred tax assets	—	—	—
<b>Liabilities:</b>			
Allowance for credit losses on unfunded commitments	1,433	(636)	797
Deferred tax liabilities	—	—	—
<b>Retained earnings:</b>			
Unallocated retained earnings, net of tax	689,018	7,704	696,722

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.

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, 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 have a recent repayment pattern demonstrating future repayment capacity to make on-time payments. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer should first be recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

#### Accrued interest receivable

The entity elected to continue classifying accrued interest on loans and investment securities in accrued interest receivable and not as part of loans or investments on the Condensed Statement of Condition. The entity 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 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

Effective 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)
- the allowance 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. Loans are evaluated on the amortized cost basis, including premiums and discounts.

The entity 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 entity'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 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 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 pooled component of the ACLL uses a combination of Association specific and peer historical data to derive expected probability of default and severity of loss rates.

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;
- the nature of the loan portfolio, including the terms of the loans;
- the experience, ability and depth of the lending management and other relevant staff;
- the volume and severity of past due and adversely classified or graded loans and the volume of nonaccrual loans;
- the quality of the loan review and process;
- the value of underlying collateral for collateral-dependent loans;
- the existence and effect of any concentrations of credit 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.

The entity uses a single economic scenario over reasonable and supportable forecast period of 12 months. Subsequent to the forecast period, the institution explicitly reverts to long run historical loss experience beyond the 12 months to inform the estimate of losses for the remaining contractual life of the loan portfolio.

The economic forecasts incorporate macroeconomic variables, including unemployment rates, real gross domestic product levels, inflation rates, federal funds rate, export levels and government and consumer spending, as well as agricultural commodity and input prices. The economic forecasts are updated on a quarterly basis.

In addition to the quantitative calculation, the institution 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 entity 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 on the Consolidated Statements of Condition. 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 institution 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:

	September 30, 2023	December 31, 2022
Real estate mortgage	\$ 2,971,185	\$ 2,925,076
Production and intermediate-term	747,452	719,965
Agribusiness	473,204	426,183
Communication	12,359	9,508
Energy	33,525	20,462
Water/Waste Disposal	2,371	—
Rural residential real estate	1,561	1,594
Total	<u>\$ 4,241,657</u>	<u>\$ 4,102,788</u>

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

Accrued interest receivable on loans of \$94.2 million and \$56.4 million at September 30, 2023, and December 31, 2022, have been excluded from the amortized cost of loans and reported separately in the Condensed Combined Statement of Condition. The Association has not written off any accrued interest receivable for the nine months ended September 30, 2023.

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration (FCA) regulations.

The following table presents information regarding participation purchased and sold at September 30, 2023:

	Participations with Other Farm Credit Institutions		Participations with Non- Farm Credit Institutions		Total Participations	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$ 177,565	\$ 326,205	\$ —	\$ —	\$ 177,565	\$ 326,205
Production and intermediate-term	81,870	111,585	—	—	81,870	111,585
Agribusiness	257,203	129,985	907	—	258,110	129,985
Communication	12,359	—	—	—	12,359	—
Energy	33,525	—	—	—	33,525	—
Water/Waste Disposal	2,371	—	—	—	2,371	—
Total	<u>\$ 564,893</u>	<u>\$ 567,775</u>	<u>\$ 907</u>	<u>\$ —</u>	<u>\$ 565,800</u>	<u>\$ 567,775</u>

### 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 entity 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, 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 entity 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 institution reviews, at least on an annual basis, or when a credit action is taken the probability of default category.

Each of the probability of default categories carries a distinct percentage of default probability. The probability of default rate between one and nine of the acceptable categories is very narrow and would reflect almost no default to a minimal default percentage. The probability of default rate grows more rapidly as a loan moves from acceptable to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain. 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 shows loans under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans by loan type as of:

	September 30, 2023	December 31, 2022
Real estate mortgage		
Acceptable	93.6%	96.8%
OAEM	4.6	2.2
Substandard	1.8	1.0
Total	<u>100.0%</u>	<u>100.0%</u>
Production and intermediate-term		
Acceptable	91.3%	94.8%
OAEM	4.6	2.1
Substandard	3.9	2.7
Doubtful	0.2	0.4
Total	<u>100.0%</u>	<u>100.0%</u>
Agribusiness		
Acceptable	96.7%	98.5%
OAEM	1.5	0.1
Substandard	1.4	1.0
Doubtful	0.4	0.4
Total	<u>100.0%</u>	<u>100.0%</u>
Communication		
Acceptable	100.0%	100.0%
Total	<u>100.0%</u>	<u>100.0%</u>
Water/Waste Disposal		
Acceptable	100.0%	—%
Total	<u>100.0%</u>	<u>—%</u>
Rural residential real estate		
Acceptable	100.0%	100.0%
Total	<u>100.0%</u>	<u>100.0%</u>
All Loans		
Acceptable	93.7%	96.6%
OAEM	4.2	2.0
Substandard	2.0	1.3
Doubtful	0.1	0.1
Total	<u>100.0%</u>	<u>100.0%</u>

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	\$ 3,241	\$ 1,325
Production and intermediate-term	4,482	4,608
Agribusiness	1,704	1,704
Total nonaccrual loans	<u>\$ 9,427</u>	<u>\$ 7,637</u>
Accrual loans 90 days or more past due	—	—
Other property owned	—	—
Total nonperforming assets	<u><u>\$ 9,427</u></u>	<u><u>\$ 7,637</u></u>
Nonaccrual loans as a percentage of total loans	0.22 %	0.19 %
Nonperforming assets as a percentage of total loans and other property owned	0.22 %	0.19 %
Nonperforming assets as a percentage of capital	1.23 %	1.11 %

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 during the period ending September 30, 2023:

	Amortized Cost with Allowance	Amortized Cost without Allowance	Interest Income Recognized
Nonaccrual loans:			
Real estate mortgage	\$ —	\$ 3,241	\$ 46
Production and intermediate-term	1,446	3,036	15
Agribusiness	1,704	—	—
Total nonaccrual loans	<u><u>\$ 3,150</u></u>	<u><u>\$ 6,277</u></u>	<u><u>\$ 61</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 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 35,722	\$ 3,148	\$ 38,870	\$ 2,932,315	\$ 2,971,185	\$ —
Production and intermediate-term	4,692	5,006	9,698	737,754	747,452	—
Agribusiness	11,544	1,703	13,247	459,957	473,204	—
Communication	—	—	—	12,359	12,359	—
Energy	—	—	—	33,525	33,525	—
Water/Waste Disposal	—	—	—	2,371	2,371	—
Rural residential real estate	—	—	—	1,561	1,561	—
Total	<u>\$ 51,958</u>	<u>\$ 9,857</u>	<u>\$ 61,815</u>	<u>\$ 4,179,842</u>	<u>\$ 4,241,657</u>	<u>\$ —</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 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 1,816	\$ —	\$ 1,816	\$ 2,969,105	\$ 2,970,921	\$ —
Production and intermediate-term	7,770	837	8,607	718,352	726,959	—
Agribusiness	—	1,704	1,704	427,947	429,651	—
Communication	—	—	—	9,514	9,514	—
Energy	—	—	—	20,549	20,549	—
Rural residential real estate	—	—	—	1,601	1,601	—
Total	<u>\$ 9,586</u>	<u>\$ 2,541</u>	<u>\$ 12,127</u>	<u>\$ 4,147,068</u>	<u>\$ 4,159,195</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 institution's allowance for credit losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limits. In addition, borrower and commodity concentration lending and leasing limits have been established by the institution to manage credit exposure. The regulatory limit to a single borrower or lessee is 15% of the institution's lending and leasing limit base but the institutions' boards of directors have generally 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 institution adopted the CECL accounting guidance as described in Note 1. A summary of changes in the allowance for credit losses by portfolio segment is as follows:

Allowance for Loan Losses	Balance at December 31, 2022	Cumulative effect of change in accg principle	Balance at January 1, 2023	Charge-offs and Recoveries Net	Transfers (to) from Reserve for Unfunded Commitments	Provision for loan losses (loan loss reversals)	Balance at September 30, 2023
Real estate mortgage	\$ 4,859	\$ (4,130)	\$ 729	\$ —	\$ 13	\$ 67	\$ 809
Production and intermediate-term	4,804	(2,116)	2,688	—	(365)	812	3,135
Agribusiness	2,745	(826)	1,919	—	19	(49)	1,889
Communication	19	23	42	—	(50)	107	99
Energy	43	(19)	24	—	(20)	60	64
Rural residential real estate	1	—	1	—	(1)	1	1
<b>Total</b>	<b>\$ 12,471</b>	<b>\$ (7,068)</b>	<b>\$ 5,403</b>	<b>\$ —</b>	<b>\$ (404)</b>	<b>\$ 998</b>	<b>\$ 5,997</b>

Allowance for Unfunded Commitment	Balance at December 31, 2021	Cumulative effect of change in accg principle	Balance at January 1, 2023	Transfers from (to) Allowance for Loan Losses	Balance at September 30, 2023	Total allowance for credit losses
Real estate mortgage	\$ 215	\$ (120)	\$ 95	\$ (13)	\$ 82	\$ 891
Production & intermediate-term	802	(220)	582	365	947	4,082
Agribusiness	394	(313)	81	(19)	62	1,951
Communication	8	23	31	50	81	180
Energy	14	(6)	8	20	28	92
Rural residential real estate	—	—	—	1	1	2
<b>Total</b>	<b>\$ 1,433</b>	<b>\$ (636)</b>	<b>\$ 797</b>	<b>\$ 404</b>	<b>\$ 1,201</b>	<b>\$ 7,198</b>

Allowance for Loan Losses <sup>1</sup>	Balance at December 31, 2021	Charge-offs	Recoveries	Transfers (to) from Reserve for Unfunded Commitments	Provision for Loan Losses/ (Loan loss reversals)	Balance at September 30, 2022
Real estate mortgage	\$ 4,597	\$ —	\$ —	\$ 6	\$ 141	\$ 4,744
Production & intermediate-term	3,033	—	—	(61)	1,296	4,268
Agribusiness	2,775	—	—	90	(4)	2,861
Communication	13	—	—	(8)	13	18
Energy	45	—	—	(7)	5	43
Rural residential real estate	1	—	—	—	—	1
<b>Total</b>	<b>\$ 10,464</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 20</b>	<b>\$ 1,451</b>	<b>\$ 11,935</b>

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

The Association did not have any loan modifications granted to borrowers experiencing financial difficulty during quarter ending September 30, 2023.

#### 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, principal may have been forgiven. When a restructured loan constituted a troubled debt restructuring, these loans were included within our impaired loans under nonaccrual or accruing restructured loans. The Association did not have any troubled debt restructurings for the quarter ending September 30, 2023 or within the previous 12 months.

#### **Note 3 – Capital**

The following sets forth the regulatory capital ratio requirements and ratios at September 30, 2023:

<b>Ratios</b>	<b>Ratios as of September 30, 2023</b>	<b>Minimum with Buffer*</b>	<b>Minimum Requirement</b>
Common Equity Tier 1 Capital	14.30%	7.0%	4.5%
Tier 1 Capital	14.30%	8.5%	6.0%
Total Capital	14.46%	10.5%	8.0%
Tier 1 Leverage**	14.99%	5.0%	4.0%
Unallocated Retained Earnings (URE) and URE Equivalents Leverage	14.94%	1.5%	1.5%
Permanent Capital	14.32%	7.0%	7.0%

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

An existing regulation empowers FCA to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. This regulation has not been utilized to date. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

#### **Note 4 – 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. The fair value measurement is not an indication of liquidity. See Note 15 to the 2022 Annual Report to Stockholders for a more complete description. There are no assets or liabilities measured at fair value on a recurring basis at September 30, 2023.

Assets and liabilities measured at fair value on a non-recurring basis are summarized below.

September 30, 2023	Total Fair Value Level 3	Total Gains (Losses)
Assets:		
Impaired loans	\$11	\$(3,139)
December 31, 2022	Total Fair Value Level 3	Total Gains (Losses)
Assets:		
Impaired loans	\$1,430	\$(3,224)

With regard to nonrecurring measurements for impaired loans, it is not practicable to provide specific information on inputs as each collateral property is unique. The Association utilizes appraisals to value these loans and take into account unobservable inputs such as, income and expense, comparable sales, replacement cost and comparability adjustments.

### **Valuation Techniques**

As more fully discussed in Note 15 of the 2022 Annual Report to Stockholders, the FASB 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 by the System institution for assets and liabilities measured at fair value. For a more complete description, see Notes to the 2022 Annual Report to Stockholders.

***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.

### **Note 5 – Subsequent Events**

The Association has evaluated subsequent events through November 2, 2023, which is the date the financial statements were issued, and no material subsequent events were identified.