REPORT TO SHAREHOLDERS
THIRD QUARTER
2023

WESTERN AGCREDIT

Management's Discussion and Analysis of Financial Condition and Results of Operations:

Statement of Condition: As of September 30, 2023, total loan volume was $1,331.4 million, an increase of $77.8 million from the comparative period for 2022 primarily due to the Association's 1) successful marketing efforts to obtain new good quality loan volume and 2) purchases of loan participations. This compared to an increase of $50.2 million from December 31, 2022 primarily due to new loan volume partially offset by repayments. The allowance for loan losses decreased $393 thousand since September 30, 2022 and decreased $471 thousand since December 31, 2022. The decrease from September 30, 2022 is primarily due to the implementation of the Current Expected Credit Losses (CECL) model, along with decreases in management adjustment/drought factor, specific allowances, and LGD factors partially offset by increases in commodity/industry factors, volume, and PD factors. The decrease from December 31, 2022 is due to the implementation of CECL along with decreases in the drought factor/management adjustments, specific allowance, and LGD factors partially offset by increases in volume and industry factors.

The Association's cash position increased $1.1 million compared to year-end 2022 due to a larger deposit being made at the end of September 2023 than at year-end 2022. Accrued interest receivable increased $8.9 million from September 2022, primarily due to increases in both interest rates and loan volume. The Investment in CoBank decreased $4.5 million from September 2022 due to a return of investment associated with a change in requirement by CoBank. The $373 thousand decrease in premises and equipment from September 2022 is primarily due to normal depreciation offset by capital purchases. Other assets increased $1.3 million compared to September 2022, primarily due to increased prepaid pension costs. The $2.2 million decrease in other assets from year-end 2022 is largely due to the receipt of 2022 CoBank patronage in March 2023.

Note payable to CoBank increased $54.8 million from a year earlier due to increased loan volume, which is primarily funded by the note payable. Funds held at September 30, 2023 were $10.4 million higher than year-end 2022 and $5.9 million more than September 30, 2022. These increases result from borrowers depositing funds into the Association's funds held account program. Accrued interest payable increased $2.0 million or 125% from September 30, 2022 due to higher cost of funds and increased note payable. The Association accrues estimated member patronage each month, resulting in $7.3 million accrued patronage at September 30, 2023. The $8.8 million of patronage distributions payable at December 31, 2022 is the accrued and declared 2022 patronage, subsequently paid to members in February 2023. An additional $4.0 million in patronage from 2022 earnings was declared and accrued in January 2023 and included in the February 2023 payment. Other liabilities decreased $383 thousand when compared to September 2022 primarily due to decreased accrued employee incentives compared to the end of September 2022. The $1.6 million decrease in other liabilities from year-end 2022 is largely due to the annual payments of Farm Credit Insurance Fund premiums and accrued employee incentives which occur in the first quarter of each year.

Capital stock and participation certificates increased $19 thousand from year-end 2022 due to stock issuances exceeding retirements. Unallocated retained earnings increased $14.5 million from year-end 2022, attributed to the Association's net income and cumulative effect of change in accounting principle partially offset by accrued member patronage. The increase of $20.7 million from September 2022 resulted from the Association's net income of $33.9 million and $216 thousand of cumulative effect of change in accounting principle related to CECL implementation less the $13.4 million in patronage distributions that were accrued during the period. The $6 thousand decrease in accumulated other comprehensive loss is due to prior year net actuarial gain/loss and amortization of net actuarial loss.

Statement of Income: Year-to-date net interest income for 2023 increased $5.7 million or 16.7% when compared to the same period in 2022. Total interest income increased $18.0 million primarily due to 1) increased average interest rate and 2) increased loan volume. Total interest expense increased $12.4 million due to the increase in the average cost of funds and increased note payable. The 2023 year-to-date reversal for loan losses is due to decreases in the drought factor, specific allowance, and LGD factors partially offset by increases in PCA collateral and industry factors. The Association's allowance for loan losses remained adequate at 0.12% of loans at September 30, 2023.

The $4 thousand increase in 2023 year-to-date total noninterest income was primarily due to increases in patronage from Farm Credit Institutions, financially related services income, and net loan fees, partially offset by decreased other noninterest income. The increase in patronage distributions from Farm Credit Institutions resulted primarily from increased participations purchased from other Farm Credit institutions. The increase in financial related services income is primarily due to increased fee appraisal income. Other noninterest income in 2023 consists of rental income from a portion of the South Jordan, Tremonton, and Evanston buildings along with loan fees collected.

Total year-to-date noninterest expense increased $1.7 million or 13.3%. The increase resulted from $1.0 million increase in salaries and employee benefits, $327 thousand decrease in gain on other property owned, $173 thousand increase in other operating expense, $86 thousand decrease in gain on sale of premise and equipment, $39 thousand increase in occupancy and equipment, and $24 thousand increase in Farm Credit Insurance Fund premium.

The Association's $25.6 million 2023 year-to-date net income is $2.2 million higher than projected in the Association's business plan primarily due to higher than projected net interest income and lower than projected operating expenses.

As previously disclosed in the 2022 Annual Report, in January 2023 the Board of Directors declared special patronage of $4.0 million from 2022 earnings to be included in the February 2023 patronage payments. This special patronage was declared and paid from 2022 earnings that were previously reported at year end 2022 as nonqualified equities not subject to retirement. In the future, earnings will not be reported as nonqualified equities not subject to retirement until designated as such after all patronage has been declared. All patronage will be paid from unallocated retained earnings as nonqualified equities not subject to retirement may not be redeemed or revolved.

Please refer to “Notes to the Association Consolidated Financial Statements” and the Association’s 2022 Annual Report for additional information. The financial statements were prepared under the oversight of the Association’s Audit Committee.

WESTERN AGCREDIT
CONSOLIDATED STATEMENTS OF CONDITION
(Unaudited)
(Dollars in thousands)

	September 30,		December 31,	
	2023	2022	2022	2021
ASSETS				
Loans	**$ 1,331,354**	$ 1,253,578	$ 1,281,157	$ 1,193,052
Less: Allowance for loan losses	**(1,670)**	(2,063)	(2,141)	(2,263)
Net loans	**1,329,684**	1,251,515	1,279,016	1,190,789
Cash	**2,404**	1,135	1,353	1,294
Accrued interest receivable	**30,656**	21,728	18,539	13,495
Investment in CoBank	**29,992**	34,463	34,463	36,911
Premises and equipment, net	**11,271**	11,644	11,451	11,824
Other property owned	**905**	970	905	2,741
Deferred tax assets, net	**-**	875	-	103
Other assets	**14,780**	13,433	16,998	14,785
Total assets	**$ 1,419,692**	$ 1,335,763	$ 1,362,725	$ 1,271,942
LIABILITIES				
Note payable to CoBank	**$ 1,065,655**	$ 1,010,820	$ 1,032,266	$ 973,757
Funds held	**38,534**	32,608	28,163	22,767
Accrued interest payable	**3,599**	1,600	1,970	829
Accrued member patronage	**7,324**	6,697	-	-
Patronage distributions payable	**-**	-	8,770	5,121
Deferred tax liabilities, net	**171**	-	45	-
Other liabilities	**4,093**	4,476	5,708	4,875
Total liabilities	**1,119,376**	1,056,201	1,076,922	1,007,349
Commitments and contingencies				
MEMBERS' EQUITY				
Capital stock and participation certificates	**1,519**	1,505	1,500	1,527
Unallocated retained earnings	**298,799**	278,068	284,311	263,081
Accumulated other comprehensive loss	**(2)**	(11)	(8)	(15)
Total members' equity	**300,316**	279,562	285,803	264,593
Total liabilities and members' equity	**$ 1,419,692**	$ 1,335,763	$ 1,362,725	$ 1,271,942

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

WESTERN AGCREDIT
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)
(Dollars in thousands)

	For the quarter ended September 30,		For the nine months ended September 30,	
	2023	2022	**2023**	2022
INTEREST INCOME				
Loans	**$ 20,745**	$ 14,558	**$ 57,875**	$ 39,852
Total interest income	**20,745**	14,558	**57,875**	39,852
INTEREST EXPENSE				
Note payable to CoBank	**8,240**	4,626	**22,563**	11,291
Funds held	**397**	140	**1,294**	209
Total interest expense	**8,637**	4,766	**23,857**	11,500
Net interest income	**12,108**	9,792	**34,018**	28,352
(Provision for)/Reversal of loan losses	**(342)**	(170)	**161**	377
Net interest income after provision for loan losses	**11,766**	9,622	**34,179**	28,729
NONINTEREST INCOME				
Patronage distribution from Farm Credit Institutions	**1,297**	1,218	**3,770**	3,735
Financially related services income	**15**	17	**66**	34
Loan fees	**120**	74	**273**	256
Other noninterest income	**33**	38	**106**	186
Total noninterest income	**1,465**	1,347	**4,215**	4,211
NONINTEREST EXPENSE				
Salaries and employee benefits	**2,786**	2,441	**8,209**	7,169
Occupancy and equipment	**161**	155	**510**	471
Other operating expense	**817**	818	**2,630**	2,457
Farm Credit Insurance Fund premium	**444**	472	**1,426**	1,402
Gain on sale of premises and equipment	**(39)**	(96)	**(40)**	(367)
Gain on other property owned, net	**-**	(5)	**-**	(86)
Total noninterest expense	**4,169**	3,785	**12,735**	11,046
Income before income taxes	**9,062**	7,184	**25,659**	21,894
Provision for income taxes	**(76)**	(14)	**(30)**	(210)
Net income	**$ 8,986**	$ 7,170	**$ 25,629**	$ 21,684
COMPREHENSIVE INCOME				
Amortization of retirement costs	**2**	1	**6**	4
Total Comprehensive Income	**$ 8,988**	$ 7,171	**$ 25,635**	21,688

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

WESTERN AGCREDIT
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

(Unaudited)
(Dollars in thousands)

	At-Risk Equity			
	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2021	$ 1,527	$ 263,081	$ (15)	$ 264,593
Comprehensive income		21,684	4	21,688
Accrued member patronage		(6,697)		(6,697)
Capital stock and participation certificates issued	85			85
Capital stock and participation certificates retired	(107)			(107)
Balance at September 30, 2022	$ 1,505	$ 278,068	$ (11)	$ 279,562
Balance at December 31, 2022	$ 1,500	$ 284,311	$ (8)	$ 285,803
Cumulative effect of change in accounting principle (Note 1)		**216**		**216**
Comprehensive income		**25,629**	**6**	**25,635**
Accrued member patronage		**(7,324)**		**(7,324)**
Patronage declared and accrued		**(4,033)**		**(4,033)**
Capital stock and participation certificates issued	**96**			**96**
Capital stock and participation certificates retired	**(77)**			**(77)**
Balance at September 30, 2023	**$ 1,519**	**$ 298,799**	**$ (2)**	**$ 300,316**

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

WESTERN AGCREDIT
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited and $ amounts in thousands)

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Western AgCredit, ACA and wholly-owned subsidiaries, Western AgCredit, PCA and Western AgCredit, FLCA (collectively called “the Association”), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2022 are contained in the 2022 Annual Report to Stockholders. These unaudited third 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 United States of America (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 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. The 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 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:

(in millions)	December 31, 2022	CECL adoption impact	January 1, 2023
Assets:			
Allowance for credit losses on loans	$ 2,141	$ (313)	$ 1,828
Deferred tax assets	337	(97)	240
Retained earnings:			
Unallocated retained earnings, net of tax	$ 284,303	$ 216	$ 284,519

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

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

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

Loan 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 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 payment 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 collection 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 expected to fulfill the contractual payments terms, and after remaining current as to principal and interest for a sustained period or have a recent payment 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 and investment securities in accrued interest receivable and not as part of loans or investments on the Consolidated Statement of Condition. 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 principal forgiveness, interest rate reduction, other-than-insignificant payment delay, or a term extension individually or in any combination. 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/or 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 loss 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

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

- the allowance for credit losses on loans (ACLL)
- the allowance for credit losses on unfunded commitments, which is presented on the balance sheet in other liabilities, and
- the allowance for credit losses on investment securities, which covers held-to-maturity and available-for-sale securities and is recognized within each investment securities classification on the Condensed Statement of Condition.

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 using 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 includes two basic components. The first component is 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. 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 asset-specific loans, expected credit losses are measured as the difference between the amortized cost basis of 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 of 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, collateral type, and length of term 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 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;
- 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 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 Association uses multiple scenarios over reasonable and supportable forecast period of one year. Subsequent to the forecast period, the Association reverts to long run historical loss experience beyond one year to inform the estimate of losses for the remaining contractual life of the loan portfolio.

The economic forecasts incorporate economic variables, including net farm income and agricultural commodity prices. Also considered are loan and borrower characteristics, such as internal risk ratings, delinquency status, collateral type, and the remaining term of the loan.

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 were 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 payment capacity would cause these various judgments, evaluations, and appraisals to change over time. Management considered several factors in determining and supporting the levels of allowances for loan losses, which included, but were not limited to, the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, regional economic effects, and weather-related influences.

NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows:

	September 30, 2023	December 31, 2022
Real estate mortgage	$ 940,413	$ 896,855
Production & intermediate-term	273,616	285,221
Agribusiness	87,690	78,329
Rural infrastructure	29,635	20,752
Total loans	$ 1,331,354	$ 1,281,157

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

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 52,541	$ 87,744	$ 189,738	$ -	$ 242,279	$ 87,744
Production & intermediate-term	42,334	13,161	15,790	5,512	58,124	18,673
Agribusiness	48,461	25,364	29,196	-	77,657	25,364
Rural infrastructure	29,635	-	-	-	29,635	-
Total participations	$ 172,971	$ 126,269	$ 234,724	$ 5,512	$ 407,695	$ 131,781

Credit Quality

Credit risk arises from the potential inability of an obligor to meet its payment obligation and exists in our outstanding loans, letters of credit, and unfunded loan commitments. The Association manages credit risk associated with 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 the 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 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 next 12 months. 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. The credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship. The Association reviews the probability of default category at least on an annual basis, or when a credit action is taken.

Each probability of default category carries a distinct percentage of default probability. The probability of default rate between the acceptable categories is very narrow and reflects a range from 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 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 and December 31, 2022:

	September 30, 2023	December 31, 2022[1]
Real estate mortgage		
Acceptable	96.49%	97.67%
OAEM	1.21%	1.12%
Substandard	2.30%	1.21%
Total	100.00%	100.00%
Production & intermediate-term		
Acceptable	94.25%	93.52%
OAEM	1.45%	3.58%
Substandard	4.30%	2.90%
Total	100.00%	100.00%
Agribusiness		
Acceptable	99.43%	98.90%
Substandard	0.57%	1.10%
Total	100.00%	100.00%
Rural infrastructure		
Acceptable	100.00%	100.00%
Total	100.00%	100.00%
Total Loans		
Acceptable	96.30%	96.86%
OAEM	1.15%	1.58%
Substandard	2.55%	1.56%
Total loans	100.00%	100.00%

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

Accrued interest receivable on loans of $30.7 million and $18.5 million at September 30, 2023 and December 31, 2022 have been excluded from the amortized cost of loans and reported separately in the Consolidated Statements of Condition.

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

	September 30, 2023	December 31, 2022
Nonaccrual loans:		
Real estate mortgage	$ 6,553	$ 7,591
Production & intermediate-term	3,273	5,865
Agribusiness	497	535
Total nonaccural loans	10,323	13,991
Other property owned	905	905
Total nonperforming assets	$ 11,228	$ 14,896

Nonaccrual loans as a percentage of total loans	0.78%
Nonperforming assets as a percentage of total loans and other property owned	0.84%
Nonperforming assets as a percentage of capital	3.74%

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

	September 30, 2023			Interest Income Recognized	
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	For the Three Months Ended September 30, 2023	For the Nine Months Ended September 30, 2023
Nonaccrual loans:					
Real estate mortgage	$ 6,553	$ -	$ 6,553	$ 18	$ 26
Production and intermediate-term	3,273	-	3,273	640	643
Agribusiness	497	-	497	-	-
Total nonaccrual loans	$ 10,323	$ -	$ 10,323	$ 658	$ 669

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

September 30, 2023	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less then 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment >90 days and Accruing
Real estate mortgage	$ 178	$ 2,558	$ 2,736	$ 937,677	$ 940,413	$ -
Production and intermediate-term	621	425	1,046	272,570	273,616	-
Agribusiness	-	-	-	87,690	87,690	-
Rural infrastructure	-	-	-	29,635	29,635	-
Total	$ 799	$ 2,983	$ 3,782	$ 1,327,572	$ 1,331,354	$ -

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 then 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment >90 days and Accruing
Real estate mortgage	$ -	$ 3,937	$ 3,937	$ 907,503	$ 911,440	$ -
Production and intermediate-term	342	4,044	4,386	284,183	288,569	-
Agribusiness	-	-	-	78,857	78,857	-
Rural infrastructure	-	-	-	20,830	20,830	-
Total	$ 342	$ 7,981	$ 8,323	$ 1,291,373	$ 1,299,696	$ -

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 mortgages and production and intermediate-term 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 each individual Association to manage credit exposure. The regulatory limit to a single borrower or lessee is 15% of the Association's lending and leasing limit base but the Associations' 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 Association adopted the CECL accounting guidance as described in Note 1. A summary of changes in the allowance for credit losses by portfolio segment are as follows:

Allowance for Loan Losses

	Balance at June 30, 2023	Cumulative effect of change in accounting principle	Charge-offs	Recoveries	Provision for / (reversal of) loan losses	Balance at September 30, 2023
Real estate mortgage	$ 498	$ -	$ -	$ -	$ 85	$ 583
Production & intermediate-term	580	-	-	2	217	799
Agribusiness	184	-	-	-	40	224
Rural infrastructure	64	-	-	-	-	64
Total	$ 1,326	$ -	$ -	$ 2	$ 342	$ 1,670

	Balance at Dec 31, 2022	Cumulative effect of change in accounting principle	Charge-offs	Recoveries	Provision for / (reversal of) loan losses	Balance at September 30, 2023
Real estate mortgage	$ 664	$ 115	$ -	$ -	$ (196)	$ 583
Production & intermediate-term	1,061	(320)	-	3	55	799
Agribusiness	336	(83)	-	-	(29)	224
Rural infrastructure	80	(25)	-	-	9	64
Total	$ 2,141	$ (313)	$ -	$ 3	$ (161)	$ 1,670

Allowance for Loan Losses[1]	Balance at June 30, 2022	Charge-offs	Recoveries	Provision for / (reversal of) loan losses	Balance at September 30, 2022
Real estate mortgage	$ 617	$ -	$ -	$ 60	$ 677
Production & intermediate-term	874	-	-	156	1,030
Agribusiness	336	-	-	(53)	283
Rural infrastructure	66	-	-	7	73
Total	$ 1,893	$ -	$ -	$ 170	$ 2,063

	Balance at Dec 31, 2021	Charge-offs	Recoveries	Provision for / (reversal of) loan losses	Balance at September 30, 2022
Real estate mortgage	$ 751	$ -	$ 177	$ (251)	$ 677
Production & intermediate-term	1,141		-	(111)	1,030
Agribusiness	309	-	-	(26)	283
Rural infrastructure	62	-	-	11	73
Total	$ 2,263	$ -	$ 177	$ (377)	$ 2,063

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

Loan Modifications to Borrowers Experiencing Financial Difficulties

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

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

	For the Three Months Ended September 30, 2023						
	Interest Rate Reduction	Term Extension	Payment Extension	Combination - Interest Rate & Term Extension	Combination - Interest Rate & Payment Extension	Combination - Term Extension & Payment Extension	Percentage of Total by Loan Type
Production & intermediate-term	$ -	$ 8,214	$ 151	$ -	$ -	$ -	0.63%
Total	$ -	$ 8,214	$ 151	$ -	$ -	$ -	0.63%

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

	For the Nine Months Ended September 30, 2023						
	Interest Rate Reduction	Term Extension	Payment Extension	Combination - Interest Rate & Term Extension	Combination - Interest Rate & Payment Extension	Combination - Term Extension & Payment Extension	Percentage of Total by Loan Type
Real estate mortgage	$ -	$ -	$ 3,561	$ -	$ -	$ -	0.27%
Production & intermediate-term	-	8,547	151	61	-	-	0.66%
Total	$ -	$ 8,547	$ 3,712	$ 61	$ -	$ -	0.93%

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty as of the three and nine months ended September 30, 2023 was $205 thousand and $215 thousand, respectively.

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

Financial Effect of Modifications Granted	
Production & intermediate-term	
Term Extension	202 days
Payment Extension	92 days

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

Financial Effect of Modifications Granted	
Real estate mortgage	
Payment Extension	145 days
Production & intermediate-term	
Term Extension	255 days
Payment Extension	92 days
Interest Rate Reduction and Term or Payment Extension	366 days and Reduced Effective Interest from 10.30% to 9.85%

The Association did not have any modified loans with borrowers experiencing financial difficulty that received a modification on or after January 1, 2023, the date of adoption of the guidance "Financial Instruments – Credit Losses: Troubled Debt Restructurings and Vintage Disclosure," that subsequently defaulted through September 30, 2023.

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

	Payment Status of Loans Modified in the Past 12 Months		
	Current	30-89 Days Past Due	90 Days or More Past Due
Real estate mortgage	$ 958	$ -	$ 2,603
Production & intermediated-term	8,759	-	-
Total	$ 9,717	$ -	$ 2,603

Additional commitments to lend to borrowers experiencing financial difficulty whose loans have been modified were $473 thousand at 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.

There were no troubled debt restructurings that occurred during the third quarter of 2022.

There were no troubled debt restructurings that subsequently defaulted in 2023 or 2022.

The following table provides information on outstanding loans restructured in troubled debt restructurings:

	December 31, 2022	
	Loans Modified as Troubled Debt Restructurings	Troubled Debt Restructurings in Nonaccrual Status*
Production and intermediate-term	$ 282	$ 282
Total	$ 282	$ 282

* Represents the portion of loans modified as troubled debt restructurings that w ere in nonaccrual status

NOTE 3 - CAPITAL

In accordance with the Farm Credit Act, each borrower is required to invest in capital stock (in the case of agricultural loans) or participation certificates (in the case of rural home and farm-related business loans) as a condition of borrowing. Borrowers purchase an amount of stock equal to the lesser of $1,000 or 2% of the amount borrowed at the customer level. The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment; the aggregate par value is added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. In accordance with the Farm Credit Act, such equities are unprotected and at risk.

Retirement of at-risk equities will be solely at the discretion of the Board of Directors at the lower of par or book value, and repayment of a loan cannot automatically result in retirement of the corresponding stock or participation certificates. The Board of Directors may adjust the required level of capitalization as necessary to meet the Association's long-term capital goals.

Retained earnings for the nine months ended September 30, 2023, reflects an increase from the cumulative effect of a change in accounting principle for CECL on January 1, 2023.

Risk adjusted assets have been defined by FCA Regulations as the Statement of Condition assets and off-balance sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets.

Capital ratios are depicted in the table below.

	Regulatory Minimums	Capital Conservation Buffer	Total	As of September 30, 2023
Risk-adjusted:				
Common Equity tier 1 capital ratio	4.5%	2.5%	7.0%	18.26%
Tier 1 capital ratio	6.0%	2.5%	8.5%	18.26%
Total capital ratio	8.0%	2.5%	10.5%	18.35%
Permanent captial ratio	7.0%	0.0%	7.0%	18.27%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.0%	1.0%	5.0%	19.77%
UREE leverage ratio	1.5%	0.0%	1.5%	20.09%

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

	Pension and Other Benefit Plans		Accumulated Other Comprehensive Loss	
Balance at June 30, 2023	$	-	$	(4)
Net current period comprehensive income		-		2
Balance at September 30, 2023	$	-	$	(2)

	Pension and Other Benefit Plans		Accumulated Other Comprehensive Loss	
Balance at June 30, 2022	$	-	$	(12)
Net current period comprehensive income		-		1
Balance at September 30, 2022	$	-	$	(11)

	Pension and Other Benefit Plans		Accumulated Other Comprehensive Loss	
Balance at December 31, 2022	$	-	$	(8)
Net current period comprehensive income		-		6
Balance at September 30, 2023	$	-	$	(2)

	Pension and Other Benefit Plans		Accumulated Other Comprehensive Loss	
Balance at December 31, 2021	$	-	$	(15)
Net current period comprehensive income		-		4
Balance at September 30, 2022	$	-	$	(11)

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. See Note 15 to the 2022 Annual Report for a more complete description.

Assets measured at fair value on a non-recurring basis for the applicable fair value hierarchy values are summarized below:

	Total Fair Value			
	September 30, 2023		December 31, 2022	
LEVEL 3 - Assets:				
Impaired loans	$	10,323	$	13,991
Other property owned		905		905

Valuation Techniques

As more fully discussed in Note 2 to the 2022 Annual Report to Stockholders, the FASB established 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 presents a brief summary of the valuation techniques used by the Association for assets and liabilities subject to fair value measurement. For a more complete description, see Notes to the 2022 Annual Report to Stockholders.

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

Loans Evaluated for Impairment - For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying real estate collateral since the loans are collateral-dependent. 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 and the net loan is reported at its fair value. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

NOTE 5 - INVESTMENT IN COBANK

The Association is required to maintain a minimum at-risk investment in CoBank stock based on a percentage of the Association's average borrowings from CoBank. The required stock investment in CoBank, which can change from time to time, is 3.00%.

The stockholder's investment in the Association is materially affected by the financial condition and results of operations of CoBank. CoBank's Third Quarter 2023 Report to Shareholders can be obtained free of charge from their website (www.cobank.com) or by contacting us at 10980 South Jordan Gateway, South Jordan, UT 84095 or by calling 800-824-9198.

NOTE 6 – EMPLOYEE BENEFIT PLANS

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

Pension Benefits		2023		2022
Service cost	$	258	$	-
Amortization of prior service costs		-		-
Amortization of net actuarial loss		-		(57)
Net periodic benefit cost	$	258	$	(57)

The components of net periodic benefit cost other than the service cost component are included in the line item "other income/(expense)" in the income statement.

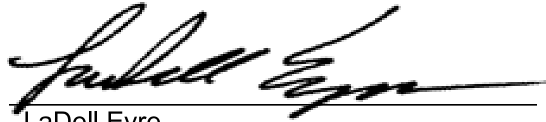
The Association previously disclosed in its financial statements for the year ended December 31, 2022 that it expected to contribute $79 thousand to its pension plan in 2023. As of September 30, 2023, $61 thousand of contributions have been made to the qualified pension plan. The Association presently anticipates contributing an additional $20 thousand to fund its pension plan in 2023 for a total of $81 thousand.

NOTE 7 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through November 2, 2023, the date the financial statements were available to be issued. No material subsequent events were identified.

CERTIFICATION

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



LaDell Eyre
Chairman of the Board of Directors

David G. Brown
President and Chief Executive Officer

Darren L. Haas
Senior Vice President and Chief Financial Officer

November 2, 2023

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