Farm Credit Illinois, ACA

Quarterly Report
March 31, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Illinois, ACA and its subsidiaries, Farm Credit Illinois, FLCA and Farm Credit Illinois, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2022 (2022 Annual Report).

Due to the nature of our financial relationship with AgriBank, FCB (AgriBank), the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank financial reports or additional copies of our report, contact us at:

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FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2022 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

The March 8, 2023, United States Department of Agriculture (USDA) World Agricultural Supply and Demand Estimates (WASDE) saw changes in both corn and soybean inventories. For corn, exports dropped 75.0 million bushels continuing the trend of exports being well below the previous five-year average. Corn prices dropped $0.60 per bushel from the beginning of the year through early March 2023, with some recovery through quarter-end. Soybean use decreased by 10.0 million bushels, but exports increased by 25.0 million bushels for a net increase in use of 15.0 million bushels. Ending stocks are projected at 210.0 million bushels, the lowest in seven years. Despite a potentially tight inventory, the projected soybean price was unchanged at $14.30 per bushel.

Brazil is on the verge of breaking a record in soybean production while Argentina will have its worst harvest in more than twenty years. Overall, South American soybean production is still expected to exceed the previous year, at slightly lower than initial projections. Despite large declines in Argentinian corn and soybean production, overall global changes in ending inventory for both commodities were small.

The March 31, 2023, Prospective Plantings report from the USDA indicated the corn planted area in 2023 at 92.0 million acres, up 4.0% from last year. Support for corn prices in the near-term would have required the corn acreage estimate to be significantly lower than 91.0 million acres. Soybean planted acres are expected to be 87.5 million, up slightly from 2022. The Grain Stocks report shows corn inventory of 7.4 billion bushels, down 5.0% from the same time last year. Soybeans stored totaled 1.7 billion bushels, down 13.0% from March 2022.

Fertilizer prices have been declining in recent months. Lower natural gas and corn prices have likely led to nitrogen price declines. Stabilization may have been reached as the Ukraine-Russia war has met the one-year mark.

Market based indicators suggest commodity prices will likely be lower for the 2023 and 2024 crop years relative to 2021 and 2022. Although lower in the short-term, input costs remain historically high. Cost changes typically lag crop revenue trends implying costs will remain relatively high through 2023 and into 2024.

University of Illinois agricultural economists analyzed the potential impact of interest rates if inflation levels persist. From 2010 to 2019, headline inflation averaged 1.9%. From a low of 1.3% in February 2021, inflation increased dramatically, reaching a high of 6.6% in September 2021, the highest level since the 1980s. By February 2022, the inflation rate declined to 5.5% with the Federal Reserve (Fed) continuing to increase interest rates, attempting to return to the target inflation rate of 2.0%. Three inflation rate scenarios and corresponding future agricultural interest rate ranges were projected. At the 2.0% Fed inflation goal, interest rates on agricultural loans would likely be between 6.0% and 7.8%. At a 3.5% inflation rate, the expected range of agricultural loan rates would be between 7.5% to 9.1%. Should inflation remain at its current level of 5.5%, agricultural loan rates would be between 9.0% to 10.6%. Based on current ten-year treasury rates, the prediction is that market participants can expect inflation to decline from current levels.

The 2023 Illinois Society of Professional Farm Managers and Rural Appraisers (ISPFMRA) Land Values and Lease Trends publication was released on March 23, 2023, and revealed another sharp rise in land values in 2022. Across Illinois, increases in all land types were recognized, with Excellent quality land values climbing an average of 16.0%. Good land values were 17.0% higher, Average and Fair quality land values both increased 7.0%, while Recreational land values increased 17.0%. Some regions, including central Illinois, saw an even greater increase in land values. With increasing interest rates, land sales have slowed in 2023. The ISPFMRA does not expect a drastic correction in land values, with 70.0% of survey respondents expecting either a level market or slight decrease over the next year.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $5.2 billion at March 31, 2023, a decrease of $140.6 million from December 31, 2022.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2022. Adversely classified loans increased to 2.2% of the portfolio at March 31, 2023, from 1.3% of the portfolio at December 31, 2022. Adversely classified loans are loans we have identified as showing some credit weakness according to our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At March 31, 2023, $178.1 million of our loans were substantially guaranteed under these government programs.

Nonperforming Assets

Effective January 1, 2023, we adopted Accounting Standards Update (ASU) 2016-13 “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” This guidance established a single allowance framework for all financial assets measured at amortized cost and certain off-balance sheet credit exposures, and replaced the incurred loss guidance. This framework requires that management’s estimate reflects credit losses over the asset’s remaining expected life and considers expected future changes in macroeconomic conditions and is referred to as the Current Expected Credit Loss model (CECL). The allowance for credit losses comprises the allowance for credit losses on loans, the allowance for unfunded commitments, and the allowance for credit losses on investment securities.

Components of Nonperforming Assets

(dollars in thousands) As of:	**March 31, 2023**	December 31, 2022
Loans:		
Nonaccrual	**$ 18,891**	$ 4,045
Accruing loans 90 days or more past due	**--**	--
Total nonperforming loans	**18,891**	4,045
Other property owned	**--**	--
Total nonperforming assets	**$ 18,891**	$ 4,045
Total nonperforming loans as a percentage of total loans	**0.4%**	0.1%
Nonaccrual loans as a percentage of total loans	**0.4%**	0.1%
Current nonaccrual loans as a percentage of total nonaccrual loans	**99.2%**	96.1%
Total delinquencies as a percentage of total loans	**0.1%**	0.1%

Note: Prior to the adoption of CECL, which was effective January 1, 2023, accruing loans included accrued interest receivable. Additionally, certain prior period ratios have been updated to conform to current period presentation.

Our nonperforming assets have increased from December 31, 2022, but have remained at acceptable levels. Despite the increase in nonperforming assets, total nonperforming loans as a percentage of total loans were well within our established risk management guidelines.

The increase in nonaccrual loans was primarily due to certain agribusiness, real estate mortgage and production and intermediate-term loans that moved to nonaccrual status during the first quarter of 2023. Nonaccrual loans remained at an acceptable level at March 31, 2023, and December 31, 2022.

Allowance for Loan Losses

Allowance For Loan Losses Coverage Ratios

As of:	**March 31, 2023**	December 31, 2022
Allowance for loan losses as a percentage of:		
Loans	**0.2%**	0.2%
Nonaccrual loans	**50.8%**	223.5%
Total nonperforming loans[1]	**50.8%**	223.5%

[1]Prior period ratio has been updated to conform to current period presentation.

Effective January 1, 2023, the allowance for loan losses is an estimate of expected credit losses in our portfolio. We determine the appropriate level of allowance for loan losses based on a disciplined process and methodology that incorporates expected probabilities of default and severity of loss based on historical portfolio performance, forecasts of future economic conditions, and management's judgment with respect to unique aspects of current and expected conditions that may not be contemplated in historical loss experience or forecasted economic conditions. Prior to January 1, 2023, the allowance for loan losses was an estimate of losses on loans in our portfolio as of the financial statement date.

Total allowance for loan losses was $9.6 million at March 31, 2023, and $9.0 million at December 31, 2022. The increase from December 31, 2022, was primarily related to the movement of certain agribusiness, real estate mortgage and production and intermediate-term loans to nonaccrual status during the first quarter of 2023, which is partially offset by a decrease related to the cumulative effect adjustment upon the adoption of CECL. Additional information regarding the CECL adoption is included in Note 1. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2023.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the three months ended March 31,	**2023**	2022
Net income	**$ 22,473**	$ 19,872
Return on average assets	**1.6%**	1.6%
Return on average members' equity	**7.7%**	7.1%

Changes presented in the profitability information chart relate directly to:

- Changes in income discussed in this section
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity, and Capital section

Changes in Significant Components of Net Income

(in thousands) For the three months ended March 31,	**2023**	2022	**Increase (decrease) in net income**
Net interest income	**$ 34,952**	$ 27,538	**$ 7,414**
Provision for credit losses	**3,687**	(488)	**(4,175)**
Non-interest income	**12,907**	10,495	**2,412**
Non-interest expense	**21,699**	18,651	**(3,048)**
Benefit from income taxes	**--**	(2)	**(2)**
Net income	**$ 22,473**	$ 19,872	**$ 2,601**

Net Interest Income

Changes in Net Interest Income

(in thousands) For the three months ended March 31,	**2023 vs 2022**
Changes in volume	**$ 2,520**
Changes in interest rates	**4,888**
Changes in nonaccrual income and other	**6**
Net change	**$ 7,414**

Provision for Credit Losses

The change in the provision for credit losses was related to our estimate of losses in our portfolio for the applicable years. The increase was related to certain agribusiness, real estate mortgage and production and intermediate-term loans that moved to nonaccrual status during the first quarter of 2023.

Non-Interest Income

The change in non-interest income was primarily due to an increase in patronage income received from AgriBank. Patronage from AgriBank primarily includes wholesale patronage and pool program patronage and may be distributed in the form of cash or stock. Patronage distributions from AgriBank are declared solely at the discretion of AgriBank's Board of Directors.

Non-Interest Expense

The change in non-interest expense was primarily due to an increase in salaries and employee benefits and Farm Credit System insurance expense.

Salaries and Employee Benefits: These expenses increased due to an increase in employee count and incentive compensation expense accrued.

Farm Credit System Insurance: The Farm Credit System insurance expense increased in 2023 primarily due to an increase in the Farm Credit System Insurance Fund (Insurance Fund) premium rate on Systemwide adjusted insured debt. The premium rate, which is primarily impacted by System growth, was 18 basis points for the three months ended March 31, 2023, compared to 16 basis points for the same period in 2022. In June 2022, the Farm Credit System Insurance Corporation (FCSIC) increased the premium rates for all Farm Credit institutions from 16 basis points to 20 basis points. The change was applied retroactively to all of calendar year 2022. The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time. Refer to Note 1 in our 2022 Annual Report for additional information on the Insurance Fund.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable is scheduled to mature on July 31, 2024. We intend to renegotiate the note payable no later than the maturity date. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from unallocated surplus. At March 31, 2023, gross loans are funded 85.7% by the direct note and 14.3% by unallocated surplus.

The components of cost of funds associated with our note payable include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

We were not subject to a risk premium at March 31, 2023, or December 31, 2022.

Total members' equity increased $24.4 million from December 31, 2022, primarily due to net income for the period.

The Farm Credit Administration (FCA) Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 7 in our 2022 Annual Report for a more complete description of these ratios.

Regulatory Capital Requirements and Ratios

As of:	**March 31, 2023**	December 31, 2022	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**16.7%**	17.5%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**16.7%**	17.5%	6.0%	2.5%	8.5%
Total capital ratio	**16.8%**	17.7%	8.0%	2.5%	10.5%
Permanent capital ratio	**16.7%**	17.5%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**18.0%**	19.0%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**17.8%**	18.9%	1.5%	N/A	1.5%

Capital ratios are directly impacted by the changes in capital, as more fully explained in this section, the changes in assets, as discussed in the Loan Portfolio section, and off-balance sheet commitments, as disclosed in Note 11 in our 2022 Annual Report.

CERTIFICATION

The undersigned have reviewed the March 31, 2023, Quarterly Report of Farm Credit Illinois, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Steve Hettinger
Chairperson of the Board
Farm Credit Illinois, ACA

Aaron S. Johnson
President and Chief Executive Officer
Farm Credit Illinois, ACA

Kelly D. Hunt
Executive Vice President and Chief Financial Officer
Farm Credit Illinois, ACA

May 8, 2023

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Illinois, ACA
(in thousands)
(Unaudited)

As of:	March 31, 2023	December 31, 2022
ASSETS		
Loans	**$ 5,213,544**	$ 5,354,154
Allowance for loan losses	**9,600**	9,040
Net loans	**5,203,944**	5,345,114
Investment in AgriBank, FCB	**181,550**	175,723
Investment securities	**203,057**	114,583
Accrued interest receivable	**55,685**	65,795
Other assets	**95,195**	87,766
Total assets	**$ 5,739,431**	$ 5,788,981
LIABILITIES		
Note payable to AgriBank, FCB	**$ 4,470,319**	$ 4,538,616
Accrued interest payable	**34,586**	29,740
Patronage distribution payable	**40,812**	43,050
Other liabilities	**12,386**	20,637
Total liabilities	**4,558,103**	4,632,043
Contingencies and commitments (Note 4)		
MEMBERS' EQUITY		
Capital stock and participation certificates	**7,900**	7,927
Unallocated surplus	**1,174,918**	1,150,555
Accumulated other comprehensive loss	**(1,490)**	(1,544)
Total members' equity	**1,181,328**	1,156,938
Total liabilities and members' equity	**$ 5,739,431**	$ 5,788,981

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Farm Credit Illinois, ACA
(in thousands)
(Unaudited)

	Three Months Ended	
For the period ended March 31,	**2023**	2022
Interest income	**$ 69,538**	$ 39,758
Interest expense	**34,586**	12,220
Net interest income	**34,952**	27,538
Provision for credit losses	**3,687**	(488)
Net interest income after provision for credit losses	**31,265**	28,026
Non-interest income		
Patronage income	**8,968**	7,099
Financially related services income	**2,503**	2,076
Fee income	**1,141**	935
Other non-interest income	**295**	385
Total non-interest income	**12,907**	10,495
Non-interest expense		
Salaries and employee benefits	**11,468**	9,829
Other operating expense	**10,231**	8,822
Total non-interest expense	**21,699**	18,651
Income before income taxes	**22,473**	19,870
Benefit from income taxes	**--**	(2)
Net income	**$ 22,473**	$ 19,872
Other comprehensive income		
Employee benefit plans activity	**$ 54**	$ 72
Total other comprehensive income	**54**	72
Comprehensive income	**$ 22,527**	$ 19,944

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Illinois, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2021	$ 7,878	$ 1,101,372	$ (1,734)	$ 1,107,516
Net income	--	19,872	--	19,872
Other comprehensive income	--	--	72	72
Capital stock and participation certificates issued	175	--	--	175
Capital stock and participation certificates retired	(165)	--	--	(165)
Balance at March 31, 2022	$ 7,888	$ 1,121,244	$ (1,662)	$ 1,127,470
Balance at December 31, 2022	$ 7,927	$ 1,150,555	$ (1,544)	$ 1,156,938
Net income	**--**	**22,473**	**--**	**22,473**
Other comprehensive income	**--**	**--**	**54**	**54**
Cumulative effect of change in accounting principle	**--**	**1,890**	**--**	**1,890**
Capital stock and participation certificates issued	**136**	**--**	**--**	**136**
Capital stock and participation certificates retired	**(163)**	**--**	**--**	**(163)**
Balance at March 31, 2023	**$ 7,900**	**$ 1,174,918**	**$ (1,490)**	**$ 1,181,328**

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim financial information and conform to generally accepted accounting principles in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the three months ended March 31, 2023, are not necessarily indicative of the results to be expected for the year ending December 31, 2023. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2022 (2022 Annual Report).

Principles of Consolidation

The Consolidated Financial Statements present the consolidated financial results of Farm Credit Illinois, ACA and its subsidiaries Farm Credit Illinois, FLCA and Farm Credit Illinois, PCA. All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Effective January 1, 2023, we adopted Accounting Standards Update (ASU) 2016-13 “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” This guidance established a single allowance framework for all financial assets measured at amortized cost and certain off-balance sheet credit exposures, and replaced the incurred loss guidance. This framework requires that management’s estimate reflects credit losses over the asset’s remaining expected life and considers expected future changes in macroeconomic conditions and is referred to as the Current Expected Credit Loss model (CECL). The allowance for credit losses comprises the allowance for credit losses on loans, the allowance for unfunded commitments, and the allowance for credit losses on investment securities.

Loans: Loans are carried at their principal amount outstanding, net of any unearned income, cumulative net charge-offs and unamortized deferred fees and costs on originated loans and unamortized premiums or discounts on purchased loans. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Origination fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income. The net amount of loan fees and related origination costs are not material to the Consolidated Financial Statements taken as a whole.

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 remains 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.

Generally, loans are placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately secured and in the process of collection) or circumstances indicate that full collection is not expected. When a loan is placed in nonaccrual status, and the interest is determined to be both uncollectible and the loss is known, we reverse current year accrued interest to the extent principal plus accrued interest exceeds the net realizable value of the collateral prior to reclassification. When we deem a loan to be uncollectible, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and certain other criteria are met. In these circumstances, interest is credited to income when cash is received. Loans are charged-off at the time they are determined to be uncollectible. Nonaccrual loans may be returned to accrual status when principal and interest are current, the customer’s ability to fulfill the contractual payment terms is fully expected, and, if the loan was past due when placed in nonaccrual status, the loan has evidence of sustained performance in making on-time contractual payments (typically based on payment frequency).

Loan modifications may be granted to borrowers experiencing financial difficulty. Qualifying disclosable modifications are one or a combination of: principal forgiveness, interest rate reduction, or a term or payment extension. Covenant waivers and modifications of contingent acceleration clauses are not considered term extensions.

Loans that are sold as participations are transferred as entire financial assets, groups of entire financial assets, or participating interests in the loans. The transfers of such assets or participating interests are structured such that control over the transferred assets, or participating interests have been surrendered and that all of the conditions have been met to be accounted for as a sale.

Prior to January 1, 2023, in situations where, for economic or legal reasons related to the borrower’s financial difficulties, we granted a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan was classified as a troubled debt restructuring (TDR), also known as a formally restructured loan for regulatory purposes. A concession was generally granted in order to minimize economic loss and avoid foreclosure. Concessions varied by program and borrower and may have included interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may have been forgiven. Loans classified as TDRs were considered risk loans. There may have been modifications made in the normal course of business that were not considered TDRs.

Allowance for Credit Losses on Loans: Beginning January 1, 2023, the allowance for credit losses on loans (ACLL) represents the estimated current expected credit losses on the loan portfolio, including unfunded commitments, over the remaining contractual life of the loan portfolio, adjusted for expected prepayments, and expected utilization of unfunded commitments. The ACLL 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 allowance is increased through provisions for credit losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The allowance for credit losses on unfunded commitments is included in "Other Liabilities" in the Consolidated Statements of Condition. See Note 2 Loans and allowance for loan losses for further information.

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 then-existing loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for credit losses in those future periods. Loans are evaluated on the amortized cost basis, including unamortized premiums and discounts. We utilize a single economic scenario over a reasonable and supportable forecast period of three years. Subsequent to the forecast period, we revert to historical loss experience to inform the estimate of losses for the remaining estimated contractual life of the portfolio.

The economic forecasts are updated on a quarterly basis and include macroeconomic variables such as net farm income, unemployment rates, real gross domestic product levels, housing price index, and agricultural land values. Loan and borrower characteristics are also utilized and include internal risk ratings, delinquency status, and the remaining term of the loan, adjusted for expected prepayments. We also consider the imprecision inherent in the process and methodology, 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.

We employ a disciplined process and methodology to establish the 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. When a loan does not share risk characteristics with other loans, expected credit loss is 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 our 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 pooled and segregated into loan classes based on loan type, commodity, and internal risk rating. The model calculates an 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 internal risk rating, and the severity of loss, based on the aggregate net lifetime losses incurred.

The final credit loss estimate also considers factors not reflected in the economic forecast and historical loss experience due to the unique aspects of current conditions and expectations. These factors may include, but are not limited to: lending policies and procedures, experience and depth of lending staff, credit quality and delinquency trends, individual borrower and industry concentrations, national, regional, and local economic business conditions and developments, and collateral value trends.

Prior to January 1, 2023, the allowance for loan losses was an estimate of losses inherent in our loan portfolio as of the financial statement date. We determined the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions. Refer to our 2022 Annual Report for additional information.

Accrued Interest Receivable: Accrued interest receivable is presented separately in the Consolidated Statements of Condition and includes accrued interest on loans and investment securities. Additionally, accrued interest receivable has been excluded from the footnote disclosures for all periods after January 1, 2023.

Investment Securities: We are authorized by the Farm Credit Administration to purchase and hold certain types of investments. As we have the positive intent and ability to hold these investments to maturity, they have been classified as held-to-maturity and are carried at amortized cost, net of allowance for credit losses on investments upon the adoption of CECL. Purchased premiums and discounts are amortized or accreted using the interest method over the terms of the respective securities.

Quarterly, we evaluate the investment portfolio for credit losses. When the present value of cash flows expected to be collected from the security is less than the amortized cost basis of the security, an allowance for credit losses is recognized and is limited to the amortized cost less the fair value. For securities that are guaranteed by the U.S. government or other governmental agencies, we have not recognized an allowance for credit losses on investments as our expectation of nonpayment of the amortized cost basis, based on historical losses, is zero.

There have been no other changes in our accounting policies as disclosed in our 2022 Annual Report, except as described above and in the Recently Issued or Adopted Accounting Pronouncements section below.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic business entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements in alignment with other System institutions.

Standard and effective date	Description	Adoption status and financial statement impact
In March 2020, the FASB issued ASU 2020-04 “Reference Rate Reform, Topic 848." In January 2021, the FASB issued ASU 2021-01 further amending Topic 848. This guidance may be elected and applied prospectively over time beginning March 12, 2020. In December 2022, the FASB issued ASU 2022-06 “Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848”, which deferred the sunset date of Topic 848 to December 31, 2024. After December 31, 2024, entities will no longer be permitted to apply the relief in Topic 848.	The guidance provides optional expedients and exceptions for applying GAAP to contracts and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contract terms related to the replacement of the reference rate.	During March 2021, we adopted this standard. Additionally, we intend to apply the relief granted in the extension. To date, the adoption of this standard has not had a material impact on our financial condition, results of operations, cash flows, and financial statement disclosures.
In June 2016, the FASB issued ASU 2016-13 “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for our first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 which amended the mandatory effective date for this guidance for certain institutions. We qualified for the deferral of the mandatory effective date. As a result of the change, the standard was effective for our first quarter of 2023 and early adoption was permitted. Additionally, the FASB issued several updates during 2019 refining and clarifying Topic 326.	This guidance replaced the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates.	We adopted the standard and subsequently issued updates as of January 1, 2023. As a result of adoption of this guidance, the allowance for loan losses decreased by $3.4 million and a reserve for unfunded commitments of $1.5 million was recognized, with a cumulative-effect increase, net of tax balances, to retained earnings of $1.9 million. The adoption of the standard did not have a material impact related to our held-to-maturity investment portfolio as all of these investments carry a full faith and credit guarantee of the U.S. government or an implicit credit guarantee from its agencies and have an immaterial risk of credit loss. No allowance for credit losses was recognized in relation to our investment portfolio upon adoption.
In March 2022, the FASB issued ASU 2022-02 “Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.” The guidance was effective at the same time that ASU 2016-13 was adopted.	This guidance eliminated the accounting guidance for troubled debt restructurings by creditors in Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings. The expanded Vintage Disclosures are not applicable to nonpublic business entities.	We adopted the standard on January 1, 2023. The adoption of this guidance did not have a material impact on our financial statements, but modified certain disclosures beginning with our first quarter 2023 Quarterly Report. However, modifications during the period were not material; therefore, related disclosures have been omitted from this report.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**March 31, 2023**		December 31, 2022	
	Amortized Cost	%	Amortized Cost	%
Real estate mortgage	**$ 2,753,755**	**52.8%**	$ 2,867,302	53.6%
Production and intermediate-term	**580,175**	**11.1%**	808,053	15.1%
Agribusiness	**1,341,608**	**25.7%**	1,221,811	22.8%
Other	**538,006**	**10.4%**	456,988	8.5%
Total	**$ 5,213,544**	**100.0%**	$ 5,354,154	100.0%

The other category is primarily composed of rural infrastructure and agricultural export finance related loans and certain assets characterized as mission related investments.

In the following loan information, as a result of the adoption of CECL, accrued interest receivable on loans of $53.3 million at March 31, 2023, has been excluded from the amortized cost of loans and is presented in “Accrued interest receivable” in the Consolidated Statements of Condition.

Credit Quality

We utilize the Farm Credit Administration (FCA) Uniform Classification System to categorize loans into five credit quality categories. The categories are:

- Acceptable – loans are non-criticized loans representing the highest quality. They are expected to be fully collectible. This category is further differentiated into various probabilities of default.
- Other assets especially mentioned (Special Mention) – loans are currently collectible but exhibit some potential weakness. These loans involve increased credit risk, but not to the point of justifying a substandard classification.
- Substandard – loans exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – loans exhibit similar weaknesses as substandard loans. Doubtful loans have additional weaknesses in existing factors, conditions, and values that make collection in full highly questionable.
- Loss – loans are considered uncollectible.

We had no loans categorized as loss at March 31, 2023, or December 31, 2022.

Credit Quality of Loans at Amortized Cost[1]

(dollars in thousands)	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of March 31, 2023	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 2,727,758**	**99.1%**	**$ 3,902**	**0.1%**	**$ 22,095**	**0.8%**	**$ 2,753,755**	**100.0%**
Production and intermediate-term	**528,688**	**91.1%**	**19,568**	**3.4%**	**31,919**	**5.5%**	**580,175**	**100.0%**
Agribusiness	**1,274,342**	**95.0%**	**10,038**	**0.7%**	**57,228**	**4.3%**	**1,341,608**	**100.0%**
Other	**532,968**	**99.1%**	**2,833**	**0.5%**	**2,205**	**0.4%**	**538,006**	**100.0%**
Total	**$ 5,063,756**	**97.1%**	**$ 36,341**	**0.7%**	**$ 113,447**	**2.2%**	**$ 5,213,544**	**100.0%**

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2022	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 2,880,417	99.0%	$ 15,842	0.5%	$ 14,266	0.5%	$ 2,910,525	100.0%
Production and intermediate-term	787,806	95.8%	28,391	3.5%	6,021	0.7%	822,218	100.0%
Agribusiness	1,166,924	95.0%	11,983	1.0%	48,771	4.0%	1,227,678	100.0%
Other	455,679	99.4%	2,251	0.5%	423	0.1%	458,353	100.0%
Total	$ 5,290,826	97.6%	$ 58,467	1.1%	$ 69,481	1.3%	$ 5,418,774	100.0%

[1]Prior to the adoption of CECL, which was effective January 1, 2023, accruing loans included accrued interest receivable.

Delinquency

Aging Analysis of Loans at Amortized Cost[1]

(in thousands) **As of March 31, 2023**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total
Real estate mortgage	**$ 3,046**	**$ 157**	**$ 3,203**	**$ 2,750,552**	**$ 2,753,755**
Production and intermediate-term	**1,124**	**--**	**1,124**	**579,051**	**580,175**
Agribusiness	**--**	**--**	**--**	**1,341,608**	**1,341,608**
Other	**--**	**--**	**--**	**538,007**	**538,006**
Total	**$ 4,170**	**$ 157**	**$ 4,327**	**$ 5,209,218**	**$ 5,213,544**

As of 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
Real estate mortgage	$ 2,057	$ 159	$ 2,216	$ 2,908,309	$ 2,910,525
Production and intermediate-term	151	--	151	822,067	822,218
Agribusiness	--	--	--	1,227,678	1,227,678
Other	3,129	--	3,129	455,224	458,353
Total	$ 5,337	$ 159	$ 5,496	$ 5,413,278	$ 5,418,774

[1]Prior to the adoption of CECL, which was effective January 1, 2023, accruing loans included accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at March 31, 2023, or December 31, 2022.

Nonaccrual Loans

Nonaccrual Loans by Type

(in thousands) As of:	**March 31, 2023**	December 31, 2022
Real estate mortgage	**$ 5,730**	$ 259
Production and intermediate-term	**2,540**	--
Agribusiness	**10,195**	3,786
Other	**426**	--
Total	**$ 18,891**	$ 4,045

The amortized cost of nonaccruals without allowance in our real estate mortgage loan category was $5.7 million as of March 31, 2023. We did not recognize any interest income on nonaccrual loans without an allowance for the three months ended March 31, 2023. We reversed from interest income $123 thousand of interest receivables for the three months ended March 31, 2023.

Allowance for Credit Losses

Changes in Allowance for Credit Losses

(in thousands) Three months ended March 31,	**2023**	2022
Allowance for Loan Losses		
Balance at beginning of period	**$ 9,040**	$ 7,732
Cumulative effect of change in accounting principle	**(3,357)**	--
Provision for loan losses	**3,919**	(488)
Recoveries	**--**	2
Charge-offs	**(2)**	(5)
Balance at end of period	**$ 9,600**	$ 7,241
Allowance for Unfunded Commitments		
Balance at beginning of period	**$ --**	$ --
Cumulative effect of change in accounting principle	**1,468**	--
Provision for unfunded commitments	**(232)**	--
Balance at end of period	**$ 1,236**	$ --
Total allowance for credit losses	**$ 10,836**	$ 7,241

Previously Required Disclosures

The disclosures in this section were required prior to January 1, 2023. Upon the adoption of CECL, these disclosures are no longer required prospectively.

Risk Loans: Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

Risk Loan Information

(in thousands) As of:	December 31, 2022
Volume with specific allowance	$ 3,877
Volume without specific allowance	602
Total risk loans	$ 4,479
Total specific allowance	$ 773
For the three months ended March 31,	2022
Income on accrual risk loans	$ 1
Income on nonaccrual loans	(6)
Total income on risk loans	$ (5)
Average risk loans	$ 3,187

Note: Accruing loans include accrued interest receivable.

TDRs: Prior to the adoption of CECL, 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.

There were no TDRs that occurred during the three months ended March 31, 2022. In addition, there were no TDRs that defaulted during the three months ended March 31, 2022, in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:		December 31, 2022
Accrual status:		
Real estate mortgage	$	--
Production and intermediate-term		434
Total TDRs in accrual status	$	434
Nonaccrual status:		
Real estate mortgage	$	166
Production and intermediate-term		--
Total TDRs in nonaccrual status	$	166
Total TDRs:		
Real estate mortgage	$	166
Production and intermediate-term		434
Total TDRs	$	600

Note: Accruing loans include accrued interest receivable.

NOTE 3: INVESTMENT SECURITIES

We held investment securities of $203.1 million at March 31, 2023, and $114.6 million at December 31, 2022. Our investment securities consisted of securities containing loans guaranteed by the Small Business Administration (SBA). All of our investment securities were fully guaranteed by the SBA, at March 31, 2023, and December 31, 2022. Premiums paid to purchase the investment are not guaranteed and are amortized as a reduction of interest income.

The investment securities have been classified as held-to-maturity. Effective January 1, 2023, we adopted CECL. Prior to January 1, 2023, the investment portfolio was evaluated for other-than-temporary impairment. No investments within the portfolio were impaired at December 31, 2022. No allowance for credit losses was recognized in relation to our investment portfolio at March 31, 2023.

Our investments are asset-backed securities, which are generally shorter-term investments.

Accrued interest receivable on investment securities is presented in "Accrued interest receivable" in the Consolidated Statements of Condition and was $2.4 million at March 31, 2023.

Investment income is recorded in "Interest income" in the Consolidated Statements of Comprehensive Income and totaled $2.1 million and $103 thousand for the three months ended March 31, 2023, and 2022, respectively. The increase is the result of significant purchases of investment securities during the first quarter of 2023.

Contractual Maturities of Investment Securities

(in thousands) **As of March 31, 2023**		Amortized Cost
One to five years	**$**	**1,121**
Five to ten years		**88,242**
More than ten years		**113,694**
Total	**$**	**203,057**

Actual maturity of the investment securities may be less than contractual maturity due to prepayments.

Previously Required Disclosures

The disclosures in this section were required prior to January 1, 2023. Upon the adoption of CECL, these disclosures are no longer required prospectively.

Additional Investment Securities Information

(dollars in thousands) As of:	December 31, 2022
Amortized cost	$ 114,583
Unrealized gains	549
Unrealized losses	(1,115)
Fair value	$ 114,017
Weighted average yield	3.1%

A summary of investments in an unrealized loss position presented by the length of time the investments have been in a continuous unrealized loss position follows:

(in thousands)	Less than 12 months		Greater than 12 months	
As of December 31, 2022	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABS	$ 45,750	$ (824)	$ 15,289	$ (291)
Total	$ 45,750	$ (824)	$ 15,289	$ (291)

NOTE 4: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

Refer to Note 11 in our 2022 Annual Report for additional detail regarding contingencies and commitments.

NOTE 5: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 in our 2022 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at March 31, 2023, or December 31, 2022.

Non-Recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-Recurring Basis

(in thousands) **As of March 31, 2023**	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Loans	**$ --**	**$ --**	**$ 9,590**	**$ 9,590**

As of December 31, 2022	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Loans	$ --	$ --	$ 3,260	$ 3,260

Valuation Techniques

Loans: Represents the carrying amount of loans evaluated individually for credit losses and are deemed to be collateral dependent. The carrying value amount is based on the estimated value of the underlying collateral, less costs to sell. When the fair value of the collateral, less cost to sell, is less than the amortized cost basis of the loan, a specific allowance for expected credit losses is established. Costs to sell represent transaction costs and are not included as a component of the collateral's estimated fair value. Typically, the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters and, therefore, are classified as Level 3 fair value measurements.

NOTE 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 8, 2023, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.