# AgCountry Farm Credit Services, ACA

**Quarterly Report**
**June 30, 2023**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of AgCountry Farm Credit Services, ACA (AgCountry) and its subsidiaries, AgCountry Farm Credit Services, FLCA and AgCountry Farm Credit Services, 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:

AgCountry Farm Credit Services, ACA
Post Office Box 6020
Fargo, ND 58108-6020
(855) 402-7849
www.agcountry.com

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.AgriBank.com
FinancialReporting@AgriBank.com

### 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 economy continues to focus on inflation and the resulting actions of the Federal Open Market Committee (FOMC). The debt ceiling dominated second quarter news until Congress passed an increase in the debt ceiling at the end of May 2023. While the FOMC remains steadfast in its intent to curb inflation and bring it back to its 2% target, the FOMC held to a 0.25% increase in May 2023, did not increase in June 2023 despite an inflation rate well above the target, and increased another 0.25% in July 2023. Rates are not expected to decrease until summer of 2024, but there continues to be a difference of opinion about how quickly inflation will be reduced. The FOMC remains optimistic about the likelihood of a soft landing, while most economists believe a recession will occur sometime in 2024. Inversion of the yield curve continues and should return to a more normal curve with downward pressure on short-term rates early in 2024.

The Consumer Price Index (CPI) for all-items increased 4.0% for the last 12 months, another decrease in the 12-month measure but still above the FOMC's target inflation rate of 2.0%. Shelter continued to be a large contributor to the monthly all-items increase with a smaller increase in food. The energy index decreased as the gasoline index, natural gas index, and electricity index all declined. Inflation is expected to continue slowing as the impact of FOMC monetary policy is felt across the economy.

The labor market remains strong despite efforts to curb inflation. There were slight changes in the unemployment rate and the number of unemployed, with the unemployment rate increasing to 3.6% and the number of unemployed increasing to 6.0 million. Total non-farm employment rose by 209,000 in June 2023. Moody's Analytics expects the unemployment rate to remain at 3.6% throughout most of 2023 before increasing at the end of the year and peaking at 4.1% in 2024.

AgCountry pays close attention to global, national, and local events, and assesses the impact of those events on our customers and our cooperative as we fulfill our mission to serve agriculture and rural America. Despite the current volatile rate environment, AgCountry consistently helps customers succeed by providing constructive credit and financial services products.

AgCountry serves a broad range of commodities and agricultural industries across its three-state territory and participates with other Farm Credit institutions in credit delivery across the Nation. The summaries below provide a high-level overview of conditions and outlook for the primary commodities in our local service area. See www.agcountry.com/resources for a more comprehensive discussion of current economic conditions and impact on commodities.

## Specific Production Conditions

**Corn:** On June 30, 2023, the United States Department of Agriculture (USDA) released their June 2023 planted acreage estimate of 94.1 million acres, above the March 2023 Prospective Planting report and 6% above last year. Drought conditions in the Corn Belt have led to weak corn condition estimates.

**Soybeans:** Volatility continued into the second quarter of 2023 in the soybean market. A record South American soybean harvest and poor crop condition estimates due to drought have negatively impacted the crop. The June 2023 Quarterly Grain Stocks and Prospective Plantings report injected optimism with a reported 83.5 million acres planted, down 5% from last year and well below the March 2023 estimate.

**Wheat:** The USDA estimates 49.6 million planted acres, 9% higher than last year's acreage and in line with the March 2023 Prospective Planting report. The report had little impact on the wheat market which was already affected by the Black Sea Grain Initiative and proceeded to set new contract lows during the second quarter of 2023.

**Sugar:** The USDA sugar supply was increased due to imports. Production for the 2023/2024 crop year is projected at 33.4 million tons with yield estimated at 30.8 tons per acre.

**Dairy:** Demand continues to weaken despite lower input costs bringing relief to margins. The weakness in demand is resulting from higher food prices coupled with slower economic activity in 2023.

**Biofuels:** Increases in output from renewable diesel producers has grown supply and diminished margins. The record soybean harvest in Brazil, lack of storage, and weaker Chinese demand forced Brazilian producers to sell their soybeans and tested the vegetable oil market.

# LOAN PORTFOLIO

## Loan Portfolio

Total loans were $12.1 billion at June 30, 2023, an increase of $405.7 million from December 31, 2022.

## Portfolio Credit Quality

The credit quality of our portfolio declined slightly from December 31, 2022. Adversely classified loans increased to 1.8% of the portfolio at June 30, 2023, from 1.5% 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 credit losses on loans.

In certain circumstances, the Federal Agricultural Mortgage Corporation and other government agency guarantee programs are used to reduce the risk of loss. At June 30, 2023, $328.3 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 (CECL) model. The allowance for credit losses comprises the allowance for credit losses on loans and unfunded commitments.

**Components of Nonperforming Assets**

| (dollars in thousands)<br>As of: | **June 30, 2023** | December 31, 2022 |
|---|---|---|
| Loans: | | |
| Nonaccrual | **$ 64,767** | $ 24,860 |
| Accruing loans 90 days or more past due | **615** | -- |
| Total nonperforming loans | **65,382** | 24,860 |
| Other property owned | **--** | -- |
| Total nonperforming assets | **$ 65,382** | $ 24,860 |
| Total nonperforming loans as a percentage of total loans | **0.5%** | 0.2% |
| Nonaccrual loans as a percentage of total loans | **0.5%** | 0.2% |
| Current nonaccrual loans as a percentage of total nonaccrual loans | **79.3%** | 80.4% |
| Total delinquencies as a percentage of total loans | **0.1%** | 0.2% |

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.

Nonperforming assets have increased from December 31, 2022 and remain at acceptable levels. Despite the increase in nonperforming assets, 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 a few large loans that moved to nonaccrual in the first quarter of 2023. Nonaccrual loans remained at an acceptable level at June 30, 2023, and December 31, 2022.

Our accounting policy requires loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, accruing loans 90 days or more past due were eligible to remain in accruing status.

### Allowance for Credit Losses on Loans

**Allowance For Credit Losses on Loans Coverage Ratios**

| As of: | **June 30, 2023** | December 31, 2022 |
|---|---|---|
| Allowance for credit losses on loans as a percentage of: | | |
| Loans | **0.3%** | 0.3% |
| Nonaccrual loans | **54.4%** | 120.9% |
| Total nonperforming loans[1] | **53.9%** | 120.9% |

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

Effective January 1, 2023, the allowance for credit losses on loans is an estimate of expected credit losses in our portfolio. We determine the appropriate level of allowance for credit losses on loans 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 credit losses on loans was $35.3 million at June 30, 2023, and $30.1 million at December 31, 2022. The increase from December 31, 2022, was primarily related to the provision for credit losses recorded for the six months ended June 30, 2023, partially offset by the cumulative effect adjustment resulting from the adoption of CECL. Additional information regarding the CECL adoption is included in Note 1. In our opinion, the allowance for credit losses on loans was reasonable in relation to the risk in our loan portfolio at June 30, 2023.

## RESULTS OF OPERATIONS

**Profitability Information**

| (dollars in thousands)<br>For the six months ended June 30, | **2023** | 2022 |
|---|---|---|
| Net income | **$ 101,134** | $ 86,418 |
| Return on average assets | **1.6%** | 1.5% |
| Return on average members' equity | **7.9%** | 7.2% |

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)<br>For the six months ended June 30, | **2023** | 2022 | **Increase (decrease) in net income** |
|---|---|---|---|
| Net interest income | **$ 164,592** | $ 132,498 | **$ 32,094** |
| Provision for credit losses | **19,909** | (1,149) | **(21,058)** |
| Non-interest income | **47,398** | 40,070 | **7,328** |
| Non-interest expense | **92,995** | 85,613 | **(7,382)** |
| (Benefit for) provision for income taxes | **(2,048)** | 1,686 | **3,734** |
| Net income | **$ 101,134** | $ 86,418 | **$ 14,716** |

## Net Interest Income

**Changes in Net Interest Income**

| (in thousands)<br>For the six months ended June 30, | | 2023 vs 2022 |
|---|---|---|
| Changes in volume | $ | 10,544 |
| Changes in interest rates | | 22,000 |
| Changes in nonaccrual income and other | | (450) |
| Net change | $ | 32,094 |

## Provision for Credit Losses

During the first six months of 2023, a provision for credit losses of $19.9 million was recorded. This provision was primarily due to specific reserves that were established on a few large loans.

## Non-Interest Income

The change in non-interest income was primarily due to an increase in patronage income. We may receive patronage from AgriBank and other Farm Credit institutions. Patronage distributions from AgriBank and other Farm Credit institutions are declared solely at the discretion of each institution's Board of Directors. AgriBank may distribute patronage in the form of cash or stock. All other patronage from other Farm Credit institutions is typically distributed in cash.

**Patronage Income**

| (in thousands)<br>For the six months ended June 30, | | 2023 | | 2022 |
|---|---|---|---|---|
| Patronage from AgriBank | $ | 30,873 | $ | 25,741 |
| AgDirect partnership distribution | | 616 | | 363 |
| Other patronage | | 55 | | 474 |
| Total patronage income | $ | 31,544 | $ | 26,578 |

Patronage from AgriBank primarily includes wholesale patronage and pool program patronage.

## FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable was scheduled to mature on December 31, 2024. However, it was renewed early in June 2023, with an effective date of July 1, 2023, for $15.0 billion with a maturity date of June 30, 2026. 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 equity.

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 June 30, 2023, or December 31, 2022.

Total members' equity increased $70.5 million from December 31, 2022, primarily due to net income for the period and the cumulative effect of the change in accounting principle, partially offset by patronage distribution accruals.

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 6 in our 2022 Annual Report for a more complete description of these ratios.

**Regulatory Capital Requirements and Ratios**

| As of: | **June 30, 2023** | December 31, 2022 | Regulatory Minimums | Capital Conservation Buffer | Total |
|---|---|---|---|---|---|
| Risk-adjusted: | | | | | |
| Common equity tier 1 ratio | **15.7%** | 16.6% | 4.5% | 2.5% | 7.0% |
| Tier 1 capital ratio | **15.7%** | 16.6% | 6.0% | 2.5% | 8.5% |
| Total capital ratio | **15.9%** | 16.8% | 8.0% | 2.5% | 10.5% |
| Permanent capital ratio | **15.8%** | 16.6% | 7.0% | N/A | 7.0% |
| Non-risk-adjusted: | | | | | |
| Tier 1 leverage ratio | **18.4%** | 19.2% | 4.0% | 1.0% | 5.0% |
| Unallocated retained earnings and equivalents leverage ratio | **18.4%** | 19.2% | 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 10 in our 2022 Annual Report.

## CERTIFICATION

The undersigned have reviewed the June 30, 2023, Quarterly Report of AgCountry Farm Credit Services, 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.

Greg Sabolik
Board Chair
AgCountry Farm Credit Services, ACA

Marcus L. Knisely
President and Chief Executive Officer
AgCountry Farm Credit Services, ACA

Rebecca A. Thibert
Chief Financial Officer
AgCountry Farm Credit Services, ACA

August 3, 2023

# CONSOLIDATED STATEMENTS OF CONDITION

*AgCountry Farm Credit Services, ACA*
*(in thousands)*

| As of: | | June 30, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| | | *(Unaudited)* | | |
| **ASSETS** | | | | |
| Loans | **$** | **12,050,049** | $ | 11,644,302 |
| Allowance for credit losses on loans | | **35,256** | | 30,068 |
| Net loans | | **12,014,793** | | 11,614,234 |
| Investment in AgriBank, FCB | | **361,423** | | 336,682 |
| Accrued interest receivable | | **127,035** | | 127,779 |
| Premises and equipment, net | | **46,781** | | 48,103 |
| Other assets | | **134,887** | | 112,737 |
| Total assets | **$** | **12,684,919** | $ | 12,239,535 |
| **LIABILITIES** | | | | |
| Note payable to AgriBank, FCB | **$** | **9,931,746** | $ | 9,521,014 |
| Accrued interest payable | | **96,951** | | 71,908 |
| Deferred tax liabilities, net | | **1,480** | | 1,305 |
| Patronage distribution payable | | **45,500** | | 83,500 |
| Other liabilities | | **41,292** | | 64,370 |
| Total liabilities | | **10,116,969** | | 9,742,097 |
| Contingencies and commitments (Note 3) | | | | |
| **MEMBERS' EQUITY** | | | | |
| Capital stock and participation certificates | | **13,183** | | 13,144 |
| Capital stock and participation certificates receivable | | **(13,183)** | | (13,144) |
| Additional paid-in capital | | **662,638** | | 662,638 |
| Unallocated surplus | | **1,913,413** | | 1,843,363 |
| Accumulated other comprehensive loss | | **(8,101)** | | (8,563) |
| Total members' equity | | **2,567,950** | | 2,497,438 |
| Total liabilities and members' equity | **$** | **12,684,919** | $ | 12,239,535 |

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

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

*AgCountry Farm Credit Services, ACA*
*(in thousands)*
*(Unaudited)*

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| *For the period ended June 30,* | **2023** | 2022 | **2023** | 2022 |
| **Interest income** | **$ 180,991** | $ 100,810 | **$ 347,698** | $ 188,983 |
| **Interest expense** | **97,156** | 32,988 | **183,106** | 56,485 |
| Net interest income | **83,835** | 67,822 | **164,592** | 132,498 |
| **Provision for credit losses** | **8,599** | 181 | **19,909** | (1,149) |
| Net interest income after provision for credit losses | **75,236** | 67,641 | **144,683** | 133,647 |
| **Non-interest income** | | | | |
| Patronage income | **15,299** | 14,412 | **31,544** | 26,578 |
| Financially related services income | **3,566** | 2,552 | **7,996** | 7,356 |
| Fee income | **3,981** | 2,888 | **7,659** | 5,840 |
| Other non-interest income | **73** | 41 | **199** | 296 |
| Total non-interest income | **22,919** | 19,893 | **47,398** | 40,070 |
| **Non-interest expense** | | | | |
| Salaries and employee benefits | **27,222** | 24,313 | **54,953** | 48,935 |
| Other operating expense | **19,166** | 18,382 | **36,956** | 35,399 |
| Other non-interest expense | **1,057** | 473 | **1,086** | 1,279 |
| Total non-interest expense | **47,445** | 43,168 | **92,995** | 85,613 |
| Income before income taxes | **50,710** | 44,366 | **99,086** | 88,104 |
| **(Benefit from) provision for income taxes** | **(321)** | 662 | **(2,048)** | 1,686 |
| Net income | **$ 51,031** | $ 43,704 | **$ 101,134** | $ 86,418 |
| **Other comprehensive income** | | | | |
| Employee benefit plans activity | **$ 231** | $ 313 | **$ 462** | $ 630 |
| Total other comprehensive income | **231** | 313 | **462** | 630 |
| Comprehensive income | **$ 51,262** | $ 44,017 | **$ 101,596** | $ 87,048 |

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

# CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

*AgCountry Farm Credit Services, ACA*
*(in thousands)*
*(Unaudited)*

| | Capital Stock and Participation Certificates and Receivable, Net | Additional Paid-in Capital | Unallocated Surplus | Accumulated Other Comprehensive Loss | Total Members' Equity |
|---|---|---|---|---|---|
| Balance at December 31, 2021 | $ -- | $ 304,385 | $ 1,718,268 | $ (10,027) | $ 2,012,626 |
| Adjustments due to merger | 1,817 | 358,253 | -- | (467) | 359,603 |
| Net income | -- | -- | 86,418 | -- | 86,418 |
| Other comprehensive income | -- | -- | -- | 630 | 630 |
| Unallocated surplus designated for patronage distributions | -- | -- | (42,663) | -- | (42,663) |
| Capital stock and participation certificates issued | 380 | -- | -- | -- | 380 |
| Capital stock and participation certificates retired | (625) | -- | -- | -- | (625) |
| Additions to capital stock and participation certificates receivable, net | (1,571) | -- | -- | -- | (1,571) |
| Balance at June 30, 2022 | $ 1 | $ 662,638 | $ 1,762,023 | $ (9,864) | $ 2,414,798 |
| Balance at December 31, 2022 | $ -- | $ 662,638 | $ 1,843,363 | $ (8,563) | $ 2,497,438 |
| Net income | **--** | **--** | **101,134** | **--** | **101,134** |
| Other comprehensive income | **--** | **--** | **--** | **462** | **462** |
| Unallocated surplus designated for patronage distributions | **--** | **--** | **(45,500)** | **--** | **(45,500)** |
| Cumulative effect of change in accounting principle | **--** | **--** | **14,416** | **--** | **14,416** |
| Capital stock and participation certificates issued | **420** | **--** | **--** | **--** | **420** |
| Capital stock and participation certificates retired | **(380)** | **--** | **--** | **--** | **(380)** |
| Additions to capital stock and participation certificates receivable, net | **(40)** | **--** | **--** | **--** | **(40)** |
| **Balance at June 30, 2023** | **$ --** | **$ 662,638** | **$ 1,913,413** | **$ (8,101)** | **$ 2,567,950** |

*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 six months ended June 30, 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 AgCountry Farm Credit Services, ACA and its subsidiaries AgCountry Farm Credit Services, FLCA and AgCountry Farm Credit Services, PCA. All material intercompany transactions and balances have been eliminated in consolidation.

#### Significant Accounting Policies

**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 and unamortized adjustments to fair value on loans acquired through merger. 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.

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 credit losses on loans. Subsequent recoveries, if any, are added to the allowance for credit losses on loans. 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.

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.

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 all of the conditions have been met to be accounted for as a sale.

**Purchased Credit Deteriorated (PCD) Loans:** The adoption of the Current Expected Credit Loss (CECL) guidance resulted in a change in the accounting for purchased credit-impaired loans, which are considered PCD loans under CECL. Purchased loans are recorded at their fair value at the acquisition date. All PCD loans were acquired through merger. An allowance for credit loss is recorded on the purchased loans at the purchase date through a provision for credit losses. Any loans that have experienced a more-than-insignificant deterioration in credit quality since origination are identified as PCD assets and we are required to estimate and record an allowance for credit losses for these assets at the time of purchase. This allowance is then added to the purchase price to establish the initial amortized cost basis of the PCD assets, rather than being reported as a credit loss expense. The difference between the unpaid principal balance and the amortized cost basis is recorded into interest income over the life of the loan. Any subsequent changes in expected credit losses are recorded through the income statement with a provision for credit loss.

**Allowance for Credit Losses:** 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 CECL model. The allowance for credit losses comprises the allowance for credit losses on loans and unfunded commitments.

*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 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 ACLL is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The provision activity is included as part of the "Provision for Credit Losses" in the Consolidated Statements of Comprehensive Income. See Note 2 for further information.

Determining the appropriateness of the ACLL 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 ACLL in those future periods. Loans are evaluated on the amortized cost basis, including unamortized premiums and discounts on purchased loans and unamortized adjustments to fair value on loans acquired through merger. We utilize a weighted average of three economic scenarios over a reasonable and supportable forecast period of three years. Subsequent to the forecast period, we revert to historical loss experience over a two-year reversion period 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 unemployment rates, U.S. corporate credit ratings, and stock market volatility and performance. Loan and borrower characteristics are also utilized and include internal risk ratings and the remaining term of the loan. 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 ACLL.

In estimating the component of the ACLL that share common risk characteristics, loans are pooled and segregated into loan classes based on loan type. 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, collateral value trends, and expected performance of specific industry sectors not reflected in the economic forecast.

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.

*Allowance for Credit Losses on Unfunded Commitments*
Under CECL, we evaluate the need for an allowance for credit losses on unfunded commitments, which is included in "Other liabilities" in the Consolidated Statements of Condition. The related provision is included as part of the "Provision for Credit Losses" in the Consolidated Statements of Comprehensive Income. The amount of expected losses is determined by calculating a commitment usage factor over the contractual period for exposures by the institution and applying the loss factors used in the ACLL methodology to the results of the usage calculation.

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

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

## 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 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 the first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 that 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 the 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 credit losses on loans decreased by $15.0 million and the allowance for credit losses on unfunded commitments decreased by $1.1 million, with a cumulative-effect increase, net of tax balances, to retained earnings of $14.4 million. |
| 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 with the adoption of 2016-13. | 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 in 2023. Modifications during the first quarter were not material; therefore, related disclosures were omitted from the first quarter 2023 Quarterly Report. |

## NOTE 2: LOANS AND ALLOWANCE FOR CREDIT LOSSES ON LOANS

**Loans by Type**

(dollars in thousands)

| As of: | **June 30, 2023** | | | December 31, 2022 | | |
|---|---|---|---|---|---|---|
| | | Amortized Cost | % | | Amortized Cost | % |
| Real estate mortgage | **$** | **4,647,809** | **38.6%** | $ | 4,629,271 | 39.8% |
| Production and intermediate-term | | **2,630,673** | **21.8%** | | 2,689,594 | 23.1% |
| Agribusiness | | **3,154,548** | **26.2%** | | 3,031,138 | 26.0% |
| Other | | **1,617,019** | **13.4%** | | 1,294,299 | 11.1% |
| Total | **$** | **12,050,049** | **100.0%** | $ | 11,644,302 | 100.0% |

The other category is primarily composed of rural infrastructure related loans.

Throughout Note 2 accrued interest receivable on loans of $127.0 million at June 30, 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 June 30, 2023, or December 31, 2022.

**Credit Quality of Loans at Amortized Cost[1]**

| (dollars in thousands) | Acceptable | | Special Mention | | Substandard/ Doubtful | | Total | |
|---|---|---|---|---|---|---|---|---|
| **As of June 30, 2023** | Amount | % | Amount | % | Amount | % | Amount | % |
| Real estate mortgage | **$ 4,527,686** | **97.4%** | **$ 52,497** | **1.1%** | **$ 67,626** | **1.5%** | **$ 4,647,809** | **100.0%** |
| Production and intermediate-term | **2,521,863** | **95.9%** | **29,623** | **1.1%** | **79,187** | **3.0%** | **2,630,673** | **100.0%** |
| Agribusiness | **2,970,523** | **94.1%** | **124,941** | **4.0%** | **59,084** | **1.9%** | **3,154,548** | **100.0%** |
| Other | **1,585,528** | **98.1%** | **14,581** | **0.9%** | **16,910** | **1.0%** | **1,617,019** | **100.0%** |
| Total | **$ 11,605,600** | **96.4%** | **$ 221,642** | **1.8%** | **$ 222,807** | **1.8%** | **$ 12,050,049** | **100.0%** |

| | Acceptable | | Special Mention | | Substandard/ Doubtful | | Total | |
|---|---|---|---|---|---|---|---|---|
| As of December 31, 2022 | Amount | % | Amount | % | Amount | % | Amount | % |
| Real estate mortgage | $ 4,604,579 | 98.0% | $ 52,803 | 1.1% | $ 41,804 | 0.9% | $ 4,699,186 | 100.0% |
| Production and intermediate-term | 2,645,838 | 97.0% | 17,630 | 0.6% | 66,263 | 2.4% | 2,729,731 | 100.0% |
| Agribusiness | 2,929,959 | 96.2% | 57,375 | 1.9% | 57,944 | 1.9% | 3,045,278 | 100.0% |
| Other | 1,277,687 | 98.4% | 13,857 | 1.1% | 6,342 | 0.5% | 1,297,886 | 100.0% |
| Total | $ 11,458,063 | 97.3% | $ 141,665 | 1.2% | $ 172,353 | 1.5% | $ 11,772,081 | 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 June 30, 2023** | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less than 30 Days Past Due | Total | Accruing Loans 90 Days or More Past Due |
|---|---|---|---|---|---|---|
| Real estate mortgage | **$ 1,181** | **$ 1,785** | **$ 2,966** | **$ 4,644,843** | **$ 4,647,809** | **$ 615** |
| Production and intermediate-term | **2,727** | **2,249** | **4,976** | **2,625,697** | **2,630,673** | **--** |
| Agribusiness | **9,283** | **259** | **9,542** | **3,145,006** | **3,154,548** | **--** |
| Other | **--** | **--** | **--** | **1,617,019** | **1,617,019** | **--** |
| Total | **$ 13,191** | **$ 4,293** | **$ 17,484** | **$ 12,032,565** | **$ 12,050,049** | **$ 615** |

| 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 | Accruing Loans 90 Days or More Past Due |
|---|---|---|---|---|---|---|
| Real estate mortgage | $ 4,364 | $ 1,253 | $ 5,617 | $ 4,693,569 | $ 4,699,186 | $ -- |
| Production and intermediate-term | 9,269 | 1,282 | 10,551 | 2,719,180 | 2,729,731 | -- |
| Agribusiness | 4,086 | -- | 4,086 | 3,041,192 | 3,045,278 | -- |
| Other | -- | -- | -- | 1,297,886 | 1,297,886 | -- |
| Total | $ 17,719 | $ 2,535 | $ 20,254 | $ 11,751,827 | $ 11,772,081 | $ -- |

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

## Nonaccrual Loans

**Nonaccrual Loans by Type**

| (in thousands) As of: | **June 30, 2023** | December 31, 2022 |
|---|---|---|
| Real estate mortgage | **$ 3,963** | $ 3,914 |
| Production and intermediate-term | **31,700** | 2,810 |
| Agribusiness | **24,696** | 15,909 |
| Other | **4,408** | 2,227 |
| Total | **$ 64,767** | $ 24,860 |

**Additional Nonaccrual Loans Information**

| (in thousands) | As of June 30, 2023 Amortized Cost Without Allowance | For the Six Months Ended June 30, 2023 Interest Income Recognized |
|---|---|---|
| Real estate mortgage | **$ 3,963** | **$ 158** |
| Production and intermediate-term | **3,136** | **288** |
| Agribusiness | **954** | **7** |
| Other | **--** | **101** |
| Total | **$ 8,053** | **$ 554** |

Reversals of interest income on loans that moved to nonaccrual status were not material for the six months ended June 30, 2023.

## Loan Modifications Granted to Borrowers Experiencing Financial Difficulty

Included within our loans are loan modifications. 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. Modifications include renewals to borrowers in financial difficulty that are fully performing. Borrowers may carry over principal from the previous revolving loan.

**Loan Modifications at Amortized Cost**[1]

| (dollars in thousands) **Six months ended June 30, 2023** | Interest Rate Reduction | Term or Payment Extension | Combination - Interest Rate Reduction and Term or Payment Extension | Total | Percentage of Total Loans |
|---|---|---|---|---|---|
| Real estate mortgage | **$ 1,441** | **$ 27** | **$ --** | **$ 1,468** | **0.0%** |
| Production and intermediate-term | **--** | **18,520** | **5,841** | **24,361** | **0.2%** |
| Agribusiness | **--** | **7,895** | **--** | **7,895** | **0.1%** |
| Total | **$ 1,441** | **$ 26,442** | **$ 5,841** | **$ 33,724** | **0.3%** |
| Concessions granted as a percentage of total loans | **0.0%** | **0.2%** | **0.0%** | **0.3%** | |

[1]Excludes loans that were modified during the period, but were paid off, repurchased, or sold prior to period end.

All loans modified for borrowers experiencing financial difficulty during the period presented were not past due or less than 30 days past due as to principal and interest as of June 30, 2023.

**Financial Effect of Loan Modifications**

| Six months ended June 30, | **2023** |
|---|---|
| | Interest Rate Reduction |
| | Financial Effect |
| Real estate mortgage | Reduced the weighted average contractual interest rate from 10.5% to 9.5% |
| | Term or Payment Extension |
| | Financial Effect |
| Real estate mortgage | Added a weighted average 60 months to the life of loans |
| Production and intermediate-term | Added a weighted average 12 months to the life of loans |
| Agribusiness | Added a weighted average 28 months to the life of loans |
| | Principal Forgiveness |
| | Financial Effect |
| Production and intermediate-term | Reduced the contractual amount of loans by $214 thousand |
| | Combination - Interest Rate Reduction and Term or Payment Extension |
| | Financial Effect |
| Production and intermediate-term | Reduced the weighted average contractual interest rate from 9.7% to 8.8% and added a weighted average 7 months to the life of loans, which reduced the monthly payment amounts for the borrowers |

There were no loans to borrowers experiencing financial difficulty that received a modification on or after January 1, 2023, the date we adopted CECL, through June 30, 2023, that subsequently defaulted during the period presented.

There were no material commitments to lend to borrowers experiencing financial difficulty whose loans have been modified during the period.

### Allowance for Credit Losses

**Changes in Allowance for Credit Losses**

| (in thousands)<br>Six months ended June 30, | **2023** | 2022 |
|---|---|---|
| **Allowance for Credit Losses on Loans** | | |
| Balance at beginning of period | **$ 30,068** | $ 22,946 |
| Cumulative effect of change in accounting principle | **(14,996)** | -- |
| Provision for loan losses | **20,099** | (1,245) |
| Recoveries | **85** | 35 |
| Charge-offs | **--** | (3) |
| Balance at end of period | **$ 35,256** | $ 21,733 |
| **Allowance for Credit Losses on Unfunded Commitments** | | |
| Balance at beginning of period | **$ 2,192** | $ 4,322 |
| Cumulative effect of change in accounting principle | **(1,054)** | -- |
| Provision for unfunded commitments | **(190)** | 96 |
| Balance at end of period | **$ 948** | $ 4,418 |
| Total allowance for credit losses | **$ 36,204** | $ 26,151 |

### 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)<br>As of: | December 31,<br>2022 |
|---|---|
| Volume with specific allowance | $ 17,918 |
| Volume without specific allowance | 11,368 |
| Total risk loans | $ 29,286 |
| Total specific allowance | $ 4,063 |
| For the six months ended June 30, | 2022 |
| Income on accrual risk loans | $ 162 |
| Income on nonaccrual loans | 526 |
| Total income on risk loans | $ 688 |
| Average risk loans | $ 17,928 |

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.

**TDR Activity**

| (in thousands)<br>Six months ended June 30, | 2022 | |
|---|---|---|
| | Pre-modification | Post-modification |
| Real estate mortgage | $ 1,587 | $ 1,587 |
| Production and intermediate-term | 566 | 566 |
| Total | $ 2,153 | $ 2,153 |

Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. The recorded investment is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, acquisition costs, and unamortized adjustments to fair value on loans acquired through merger and may also reflect a previous direct charge-off of the investment.

The primary types of modifications for the six months ended June 30, 2022, included interest rate reduction below market and deferral of principal.

There were no TDRs that defaulted during the six months ended June 30, 2022, in which the modification was within twelve months of the respective reporting period.

**TDRs Outstanding**

| (in thousands)<br>As of: | December 31,<br>2022 |
|---|---|
| Accrual status: | |
| Real estate mortgage | $ 4,392 |
| Production and intermediate-term | 34 |
| Agribusiness | -- |
| Total TDRs in accrual status | $ 4,426 |
| Nonaccrual status: | |
| Real estate mortgage | $ 1,147 |
| Production and intermediate-term | 613 |
| Agribusiness | 765 |
| Total TDRs in nonaccrual status | $ 2,525 |
| Total TDRs: | |
| Real estate mortgage | $ 5,539 |
| Production and intermediate-term | 647 |
| Agribusiness | 765 |
| Total TDRs | $ 6,951 |

Note: Accruing loans include accrued interest receivable.

## NOTE 3: 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 10 in our 2022 Annual Report for additional detail regarding contingencies and commitments.

## NOTE 4: 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 June 30, 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 June 30, 2023** | Fair Value Measurement Using | | | Total Fair |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Value |
| Loans | **$ --** | **$ --** | **$ 36,876** | **$ 36,876** |

| As of December 31, 2022 | Fair Value Measurement Using | | | Total Fair |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Value |
| Loans | $ -- | $ -- | $ 14,548 | $ 14,548 |

**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 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 3, 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.