



FARM CREDIT

**THIRD QUARTER 2023 QUARTERLY INFORMATION
STATEMENT OF THE FARM CREDIT SYSTEM**

Federal Farm Credit Banks Funding Corporation
101 Hudson Street, Suite 3505 • Jersey City, New Jersey 07302 • 201-200-8000

NOVEMBER 9, 2023

This quarterly information statement provides important information for investors in the debt securities jointly issued by the four Farm Credit System Banks — AgFirst Farm Credit Bank, AgriBank, FCB, CoBank, ACB and Farm Credit Bank of Texas (collectively, the Banks). These debt securities, which we refer to as Systemwide Debt Securities, include:

- Federal Farm Credit Banks Consolidated Systemwide Bonds,
- Federal Farm Credit Banks Consolidated Systemwide Discount Notes,
- Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes, and
- any other debt securities that the Farm Credit System Banks may jointly issue from time to time.

This quarterly information statement does not constitute an offer to sell or a solicitation of an offer to buy Systemwide Debt Securities. Systemwide Debt Securities are offered by the Federal Farm Credit Banks Funding Corporation (Funding Corporation) on behalf of the Banks pursuant to offering circulars for each type of debt offering. The relevant offering circular as of this date is the Federal Farm Credit Banks Consolidated Systemwide Bonds and Discount Notes Offering Circular dated December 20, 2021, as amended by supplements dated March 1, 2022 and June 21, 2023.

The offering circular may be amended or supplemented from time to time and a new offering circular may be issued. Before purchasing Systemwide Debt Securities, you should carefully read the relevant offering circular and related supplements, the most recent annual and quarterly information statements and other current information released by the Funding Corporation regarding the Banks and/or Systemwide Debt Securities. At this time, no Systemwide Debt Securities are being offered under the Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes Offering Circular dated July 19, 1993, as amended by supplements dated February 26, 1997 and June 11, 1999.

Systemwide Debt Securities are the joint and several obligations of the Banks and are not obligations of or guaranteed by the United States government. Systemwide Debt Securities are not required to be registered and have not been registered under the Securities Act of 1933. In addition, the Banks are not required to file and do not file periodic reports under the Securities Exchange Act of 1934. Systemwide Debt Securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, these authorities have not confirmed the accuracy or determined the adequacy of any offering material.

Certification

The undersigned certify that (1) we have reviewed this quarterly information statement, (2) this quarterly information statement has been prepared in accordance with all applicable statutory or regulatory requirements, and (3) the information contained in this quarterly information statement is true, accurate, and complete to the best of the signatories' knowledge and belief.

Matthew D. Walther Theresa E. McCabe Karen R. Brenner

Matthew D. Walther
Chairman of the Board

Theresa E. McCabe
President and CEO

Karen R. Brenner
Managing Director — Financial
Management Division

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WHERE YOU CAN FIND ADDITIONAL INFORMATION

Farm Credit System quarterly and annual information statements and press releases relating to financial results or other developments affecting the System issued by the Funding Corporation as well as offering circulars relating to Systemwide Debt Securities and links to each Bank’s website, are available on the Funding Corporation’s website located at farmcreditfunding.com. Other information regarding the System can be found at farmcredit.com.

Copies of quarterly and annual reports of each Bank may be obtained, by request, from each respective Bank. In addition, reports of each Bank combined with its affiliated Associations may be obtained from each individual Bank. Bank addresses and telephone numbers are listed on page S-5 of this quarterly information statement. These documents and further information on each Bank or each Bank combined with its affiliated Associations and links to a Bank’s affiliated Associations’ websites are also available on each Bank’s website as follows:

- AgFirst Farm Credit Bank — agfirst.com
- AgriBank, FCB — agribank.com
- CoBank, ACB — cobank.com
- Farm Credit Bank of Texas — farmcreditbank.com

Information contained on these websites is not incorporated by reference into this quarterly information statement and you should not consider information contained on these websites to be part of this quarterly information statement.

BUSINESS

Overview of the Farm Credit System

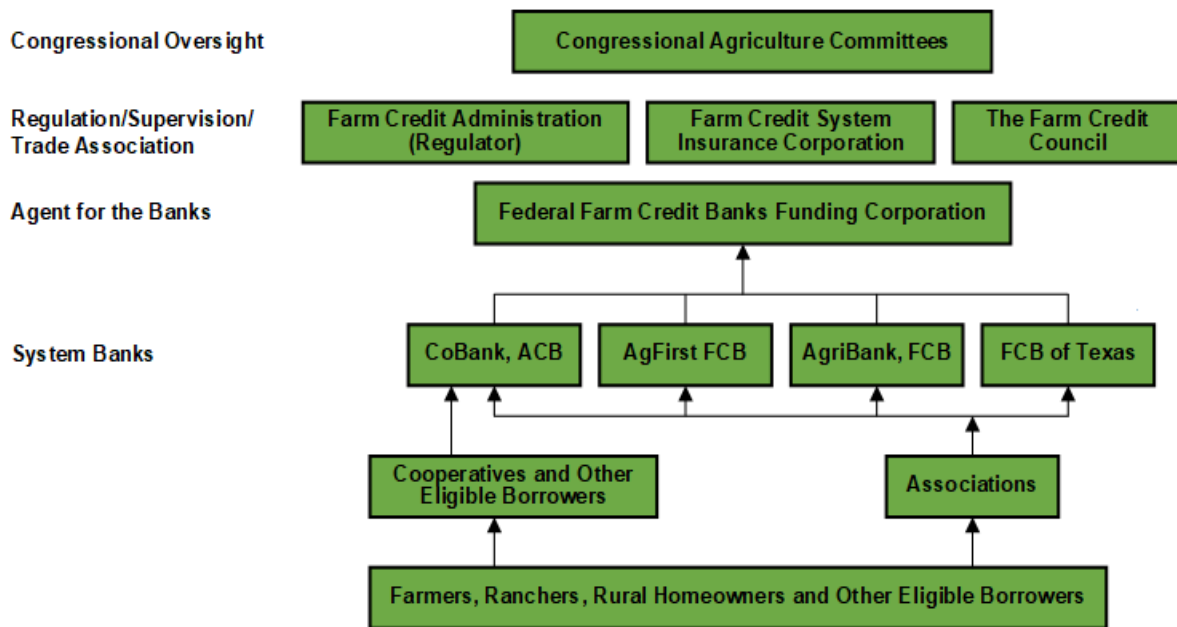
The Farm Credit System is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. Cooperatives are organizations that are owned and controlled by their members who use the cooperatives' products or services. The U.S. Congress authorized the creation of the first System institutions in 1916. The System's mission is to support rural communities and agriculture with reliable, consistent credit and financial services. This is accomplished by making appropriately structured loans to qualified individuals and businesses at competitive rates and

providing financial services and advice to those individuals and businesses. Consistent with the mission of supporting rural America, the System also makes rural residential real estate loans, finances rural power, communication and water infrastructures and makes loans to support agricultural exports and to finance other eligible entities.

Congress established the Farm Credit Administration as the System's independent federal regulator to examine and regulate System institutions, including their safety and soundness. System institutions are federal instrumentalities.

Structure/Ownership of the Farm Credit System

The following chart depicts the current overall structure and ownership of the System.



The Associations are cooperatives owned by their borrowers, and the Farm Credit Banks (AgFirst, AgriBank and Texas) are cooperatives primarily owned by their affiliated Associations. The Agricultural Credit Bank (CoBank) is a cooperative principally owned by cooperatives, other eligible borrowers and its affiliated Associations. The Banks and Associations each have their own board of directors and are not commonly owned. Each Bank and Association manages and controls its own business activities, operations and financial performance.

issues and markets Systemwide Debt Securities in order to raise funds for the lending activities and operations of the Banks and Associations. The Funding Corporation also provides the Banks with certain accounting and financial reporting services, including the preparation of the System's quarterly and annual information statements and the System's combined financial statements contained in those information statements. As the System's financial spokesperson, the Funding Corporation is primarily responsible for financial disclosure and the release of public information concerning the financial condition and performance of the System.

The Banks jointly own the Funding Corporation. The Funding Corporation, as agent for the Banks,

Systemwide Debt Securities are the general unsecured joint and several obligations of the Banks. Systemwide Debt Securities are not obligations of and are not guaranteed by the United States government. In addition, Systemwide Debt Securities are not the direct obligations of the Associations and, as a result, the capital of the Associations may not be available to support principal or interest payments on Systemwide Debt Securities.

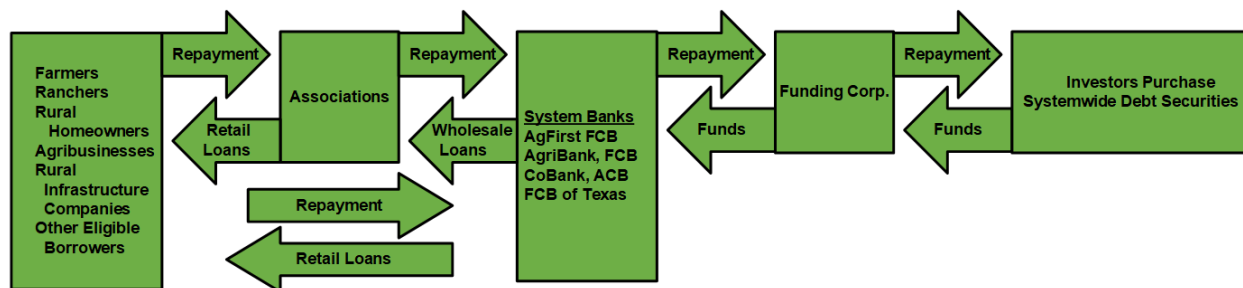
Business Model

A Bank and its affiliated Associations are financially and operationally interdependent as the Bank is statutorily required to serve as an intermediary between the financial markets and the retail lending activities of its affiliated Associations. The Banks are the primary source of funds for the Associations. Associations are not legally authorized to accept deposits and may not borrow from other financial institutions without the approval of their affiliated Bank. The Banks are not legally authorized to accept deposits and they principally obtain their funds through the issuance of Systemwide Debt Securities. Other less significant sources of funding for the Banks

and the Associations include internally generated earnings, the issuance of common and preferred equities and subordinated debt. As a result, the loans made by the Associations are primarily funded by the issuance of Systemwide Debt Securities by the Banks. In addition, CoBank makes retail loans and leases directly to agricultural and rural infrastructure cooperatives and businesses and other eligible entities. The Banks and Associations also purchase loan participations from other System entities and non-System lenders. Therefore, the repayment of Systemwide Debt Securities is dependent upon the ability of these borrowers to repay their loans.

Preferred stock and subordinated debt are the sole obligation of the issuing entity and are not guaranteed by any other System institution. Such obligations are not Systemwide Debt Securities and therefore are not subject to the joint and several obligations of the Banks and are not guaranteed or insured by the Insurance Fund.

The chart below illustrates the flow of funds from investors in Systemwide Debt Securities to the System’s borrowers and the ultimate repayment of funds to investors resulting from borrower loan repayments.



Overview of the Business

As required by the Farm Credit Act, the System specializes in providing financing and related services to eligible, creditworthy borrowers in the agricultural and rural sectors, to certain related entities, and to domestic or foreign parties in connection with the export of U.S. agricultural products. The System makes credit available in all 50 states, the Commonwealth of Puerto Rico, and, under conditions set forth in the Farm Credit Act, U.S. territories.

System institutions may also provide a variety of financially related services to their borrowers designed to enhance their business, including acting as agent or broker for credit and mortgage-life insurance, disability insurance, various types of crop insurance and livestock risk protection. The insurance is made available through private insurers.

Other services offered by System institutions include estate planning, record keeping, tax planning and preparation, fee appraisal and cash management products and services. In addition, some System institutions provide leasing and related services to their customers.

Government-Sponsored Enterprise Status

In order to better accomplish its mission, Congress has granted the System certain attributes that result in government-sponsored enterprise status for the System. As a government-sponsored enterprise, the System has traditionally been able to raise funds at competitive rates and terms, in varying economic environments. This ability to raise funds has historically allowed the System to make competitively priced loans to eligible borrowers through all economic cycles and thus accomplish its mission.

Agricultural Industry Overview

The agricultural sector has been and remains a key economic force in the U.S. economy and is strongly affected by domestic and global economic conditions, government policies and a changing climate. Global and domestic adverse weather events, food safety, disease, pandemics, geopolitical events and other unfavorable conditions also directly affect the agricultural sector.

The System was created to provide support for the agricultural sector because of its significance to the well-being of the U.S. economy and the U.S. consumer. Profitability is dependent on the health of the U.S. agricultural sector, which is heavily influenced by domestic and world demand for agricultural products, and impacted by government policies and support programs, including crop insurance, which is available to producers of certain agricultural commodities. Further, off-farm income is important to the repayment ability of many agricultural producers. Accordingly, the business also may be impacted by the health of the general U.S. economy.

System Lending Institutions

The two types of entities through which the System conducts the lending business are the Banks and the Associations.

Banks

At September 30, 2023, the System had four Banks (three Farm Credit Banks and one Agricultural Credit Bank). The Banks' lending operations include wholesale loans to their affiliated Associations and loan participations in eligible loans purchased from Associations, other Banks and non-System lenders. In addition, CoBank, as the Agricultural Credit Bank, has additional nationwide authority to make retail loans directly to agricultural and rural infrastructure cooperatives and businesses and other eligible entities.

The Banks obtain a substantial majority of funds for their lending operations through the issuance of Systemwide Debt Securities, but also obtain some of their funds from internally generated earnings and from the issuance of common and preferred equities.

Associations

At September 30, 2023, the System was comprised of 59 Associations throughout the United States and the Commonwealth of Puerto Rico. As a result of a merger involving two Associations on October 1, 2023, there are currently 58 Associations,

57 Agricultural Credit Associations with Production Credit Association and Federal Land Credit Association subsidiaries, and one Federal Land Credit Association. The Federal Land Credit Association makes real estate mortgage loans, including rural residential real estate loans. Agricultural Credit Associations may, directly or through their subsidiaries, make real estate mortgage loans, production and intermediate-term loans, agribusiness loans (processing and marketing loans, and certain farm-related business loans) and rural residential real estate loans. These retail loans are made to farmers, ranchers, producers or harvesters of aquatic products, farm-related businesses and rural homeowners. Associations may also purchase eligible loan participations from other System entities and non-System lenders.

The Associations obtain a substantial majority of the funds for their lending operations from borrowings from their affiliated Bank, but also obtain some of their funds from internally generated earnings, from the issuance of common and preferred equities and subordinated debt.

Farm Credit Insurance Fund

As more fully discussed on page 23 in the 2022 *Annual Information Statement*, the Farm Credit System Insurance Corporation's primary purpose is to insure the timely payment of principal and interest on Systemwide Debt Securities. The Insurance Corporation maintains the Insurance Fund for this purpose and for certain other mandatory and discretionary purposes. In the event a Bank is unable to timely pay principal or interest on any insured debt obligation for which that Bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent available to insure the timely payment of principal and interest on the debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the Banks on the debt obligation cannot be invoked until the Insurance Fund is exhausted. The insurance provided through use of the Insurance Fund is not an obligation of and is not a guarantee by the U.S. government.

Disclosure Obligations

The Farm Credit Administration has promulgated regulations intended to ensure the appropriate disclosure of financial and other information concerning the System to investors in Systemwide Debt Securities and other interested parties. These disclosures are the responsibility of the System Disclosure Entities, which consist of the Banks

and the Funding Corporation. For a description of the responsibilities of the System Disclosure Entities, see pages 18 and 19 of the *2022 Annual Information Statement*.

Governance — Code of Ethics

Each System institution is required by regulation to adopt a standards of conduct program, including a code of ethics that applies to every director and employee. The code of ethics reaffirms the high standards of business conduct required of, and provides guidance to, directors and employees.

In addition, each Bank and the Funding Corporation has either adopted a separate code of ethics or incorporated additional requirements in their code of ethics that apply to their chief executive officers, certain other executives, and finance and accounting senior professionals who are involved with the preparation of the System's financial statements and the maintenance of the financial records supporting the financial statements.

The Funding Corporation will disclose material amendments to or any waivers from a required provision of the codes of ethics for any individual covered by the Banks' or the Funding Corporation's codes of ethics by including that information in future information statements. No such amendments or waivers were made during the first nine months of 2023. The Funding Corporation's and each of the Bank's codes of ethics are available and can be accessed through each respective website as listed on page 2.

Risk Factors

Other than described below, there have been no material changes to the risk factors previously disclosed in the System's *2022 Annual Information Statement*.

A decrease in our credit rating or the U.S. government's credit rating could have an adverse effect on our ability to issue Systemwide Debt Securities at favorable rates and terms.

The System is subject to periodic review by credit rating agencies. These rating agencies base their ratings on many quantitative and qualitative factors, including the sovereign credit rating of the U.S. given the System's status as a government-sponsored enterprise. Material changes to the factors considered by the rating agencies could result in a different debt rating. A rating issued by these rating agencies is not a recommendation to buy, sell, or hold securities. The rating by each rating agency should be evaluated

independently. The U.S. government does not guarantee, directly or indirectly, the payment of principal and interest on the Systemwide Debt Securities issued by the Banks.

On May 24, 2023, Fitch Ratings placed the U.S. sovereign's AAA long-term issuer default rating (IDR) on ratings watch negative. On May 26, 2023, Fitch Ratings placed the System's long-term IDR, short-term IDR and the government support ratings on ratings watch negative. As a government-sponsored entity, the System benefits from implicit government support and therefore, the ratings are directly linked to the U.S. sovereign rating. As a result, a decline in the U.S. sovereign rating will result in a decline in the System's rating.

On August 1, 2023, Fitch Ratings lowered the U.S. sovereign's long-term IDR to AA+ from AAA; the F1+ short-term rating was affirmed. The outlook on the long-term debt rating was revised to stable. On August 2, 2023, Fitch Ratings lowered the long-term debt rating for the System to AA+ from AAA; the A-1+ short-term rating was affirmed. The outlook on the long-term debt rating was revised to stable. Fitch cited the deterioration of U.S. governance on fiscal and debt matters including the repeated down-to-the-wire debt ceiling negotiations as cause for the downgrade of the U.S. sovereign.

A downgrade in our credit ratings by any of the rating agencies could result in higher funding costs or disruptions in the System's access to the capital markets. To the extent that the System cannot access the capital markets when needed on acceptable terms or is unable to effectively manage its cost of funds, its financial condition and results of operations could be negatively affected.

Domestic and foreign governmental policies, regulations and other actions and conflicts affecting the agricultural sector and related industries could adversely affect the System's financial condition and results of operations.

Geopolitical risks associated with conflicts such as wars, terrorist acts and tension between parties, including international trade disputes, could adversely affect agricultural commodity trade flows by limiting or disrupting trade between countries or regions.

The System is currently operating in a period of economic uncertainty and capital markets disruption, which has been significantly impacted by geopolitical instability due to the war in Ukraine and in the Middle East.

U.S. and global markets have experienced volatility and disruption following the escalation of geopolitical tensions, including the war in Ukraine and in the Middle East. Although the length and impact of the ongoing wars is highly unpredictable, such wars could lead to market disruptions, including significant volatility in commodity prices, credit and capital markets, as well as supply chain interruptions. We are continuing to monitor the situations in Ukraine, the Middle East and globally and assessing their potential impacts on our business. In addition, sanctions on Russia and hostilities in the Middle East

could adversely affect the global economy and financial markets and lead to instability and lack of liquidity in capital markets, potentially making it more difficult for us to obtain additional funds.

Any of the above mentioned factors could materially and adversely affect our business, prospects, financial condition, and operating results. The extent and duration of the military actions, sanctions and resulting market disruptions are impossible to predict, but could be substantial. Any such disruptions may also magnify the impact of other risks.

OTHER BUSINESS MATTERS

Legal Proceedings

At September 30, 2023, various lawsuits were pending or threatened against System institutions. Each System institution to which a pending or threatened lawsuit relates intends to vigorously defend against such action. In the opinion of management,

based on information currently available and taking into account the advice of legal counsel, the ultimate liability, if any, of pending or threatened legal actions will not have a material adverse impact on the System's combined results of operations or financial condition.

SELECTED COMBINED FINANCIAL DATA AND KEY FINANCIAL RATIOS

The following selected combined financial data for each of the three years in the period ended December 31, 2022 has been derived from the audited combined financial statements of the Farm Credit System. The selected combined financial data and combined financial statements of the System combine the financial condition and operating results of each of the Banks, their affiliated Associations, the Funding Corporation, and the Farm Credit Insurance Fund, and reflect the investments in, and allocated earnings of, certain service organizations owned by the Banks or Associations. All significant intra-System transactions and balances have been eliminated in combination. Because System entities are financially and operationally interdependent, we believe providing the combined financial information is more meaningful to investors in Systemwide Debt Securities than financial information relating to the Banks on a stand-alone basis (i.e., without the Associations).

While this quarterly information statement reports on the combined financial condition and results

of operations of the Banks, Associations, and other System entities specified above, only the Banks are jointly and severally liable for the repayment of Systemwide Debt Securities. See Note 15 to the accompanying condensed combined financial statements for combining Bank-only financial condition and results of operations. Also, copies of quarterly and annual reports of each Bank are available on each of their respective websites; see page 2 for a listing of their websites.

The selected combined financial data for the nine months ended September 30, 2023 and 2022 has been derived from the System's unaudited condensed combined financial statements appearing elsewhere herein, which include all normal, recurring adjustments necessary for a fair statement of the results for these interim periods.

	September 30,		December 31,		
	2023	2022	2022	2021	2020
	(unaudited)				
Combined Statement of Condition Data	(in millions)				
Loans	\$ 385,145	\$ 361,679	\$ 373,266	\$ 343,929	\$ 315,490
Allowance for credit losses on loans ¹	(1,668)	(1,540)	(1,576)	(1,632)	(1,796)
Net loans	383,477	360,139	371,690	342,297	313,694
Cash, Federal funds sold, securities purchased under resale agreements and investments	91,632	89,567	89,896	80,816	74,210
Accrued interest receivable	4,913	3,566	3,572	2,560	2,585
Other property owned	26	26	28	39	37
Total assets	492,750	464,652	477,063	435,957	400,693
Systemwide bonds	385,055	350,561	362,562	328,488	299,064
Systemwide medium-term notes	61	64	62	64	81
Systemwide discount notes	16,738	26,529	27,353	24,271	23,510
Subordinated debt	398	398	398	398	
Other bonds	7,546	7,629	5,599	3,623	2,559
Total liabilities	420,480	395,256	408,462	366,480	335,158
Capital	72,270	69,396	68,601	69,477	65,535

¹ The amount as of September 30, 2023, reflects the impact of adopting the Accounting Standards Update – Financial Instruments – Credit Losses, commonly referred to as the Current Expected Credit Losses (CECL) standard. Prior periods presented reflect measurement of the allowance for credit losses based on management's estimate of probable and estimable incurred credit losses in the loan portfolio. For more information, see Note 1 – Organization and Significant Accounting Policies.

	For the Nine Months Ended September 30,		For the Year Ended December 31,		
	2023	2022	2022	2021	2020
	(unaudited)				
Combined Statement of Income Data	(in millions)				
Net interest income	\$ 8,481	\$ 7,836	\$ 10,542	\$ 9,764	\$ 9,046
(Provision for credit losses) credit loss reversal	(464)	9	(40)	152	(107)
Net noninterest expense	(2,368)	(2,244)	(3,068)	(2,959)	(2,765)
Income before income taxes	5,649	5,601	7,434	6,957	6,174
Provision for income taxes	(142)	(152)	(166)	(161)	(172)
Net income	<u>\$ 5,507</u>	<u>\$ 5,449</u>	<u>\$ 7,268</u>	<u>\$ 6,796</u>	<u>\$ 6,002</u>

Combined Key Financial Ratios

Certain combined key financial ratios of the System are set forth below:

	For the Nine Months Ended September 30,		For the Year Ended December 31,		
	2023	2022	2022	2021	2020
Return on average assets	1.52%	1.61%	1.59%	1.66%	1.57%
Return on average capital	10.34	10.46	10.45	9.94	9.26
Net interest income as a percentage of average earning assets	2.42	2.39	2.39	2.46	2.46
Operating expense as a percentage of net interest income and noninterest income	34.0	34.0	35.1	35.3	35.9
Net loan charge-offs as a percentage of average loans	0.05	0.01	0.01	0.01	0.03

	September 30,		December 31,		
	2023	2022	2022	2021	2020
Nonperforming assets ¹ as a percentage of loans and other property owned	0.53%	0.51%	0.47%	0.46%	0.60%
Allowance for credit losses on loans as a percentage of loans outstanding	0.43	0.43	0.42	0.47	0.57
Capital as a percentage of total assets	14.7	14.9	14.4	15.9	16.4
Capital as a percentage of total assets (excluding restricted assets and capital — Insurance Fund)	13.4	13.7	13.2	14.8	15.2
Capital and allowance for credit losses on loans as a percentage of loans outstanding	19.2	19.6	18.8	20.7	21.3
Debt to capital	5.82:1	5.70:1	5.95:1	5.27:1	5.11:1

¹Prior to the adoption of CECL on January 1, 2023, nonperforming assets included accruing restructured loans and were presented with accrued interest.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND QUARTERLY RESULTS OF OPERATIONS

The System's 2022 *Annual Information Statement* contains the December 31, 2022 audited combined financial statements together with commentary that explains the principal aspects of the System's combined financial position and results of operations. The following commentary represents a quarterly supplement to that information statement and includes a discussion of significant financial developments for the nine months ended September 30, 2023. This commentary should be read in conjunction with the 2022 *Annual Information Statement* and with the condensed combined financial statements of the System beginning on page F-1 of this quarterly information statement.

Basis of Presentation

The accompanying condensed combined financial statements and related financial information contained in this quarterly information statement present the combined assets, liabilities, capital, income and expenses of the Banks, the Associations, the Federal Farm Credit Banks Funding Corporation and the Farm Credit Insurance Fund, and reflect the investments in and allocated earnings of certain service organizations owned by the Banks or Associations. All significant intra-System transactions and balances have been eliminated in combination. (See Note 1 to the accompanying condensed combined financial statements for additional information on organization and significant accounting policies and the Supplemental Combining Information on pages F-59 through F-65). This quarterly information statement has been prepared under the oversight of the System Audit Committee.

The System's financial statements are presented on a combined basis due to the financial and operational interdependence of System entities as discussed in the "Business" section in this quarterly information statement.

Each Bank is primarily liable for the payment of principal and interest on Systemwide Debt Securities issued to fund its operations. (See Note 9 to the accompanying condensed combined financial statements for information about the capital of the Banks, Note 15 for information related to the financial condition and results of operations of the Banks, and the Supplemental Combining Information on pages F-59 through F-61 for information related to the financial condition and results of operations of the combined Banks.) Because the Associations are not

directly liable for the payment of principal or interest on Systemwide Debt Securities, their capital may not be available to support those payments. Under the Farm Credit Act, the timely payment of the principal and interest on Systemwide Debt Securities is insured by the Farm Credit System Insurance Corporation to the extent funds are available in the Insurance Fund. (See Note 6 to the accompanying condensed combined financial statements.)

Forward-Looking Information

Certain sections of this quarterly information statement contain forward-looking statements concerning financial information and statements about future economic performance and events, plans and objectives and assumptions underlying these projections and statements. These projections and statements are not based on historical facts but instead represent current assumptions and expectations regarding the System's business, the economy and other future conditions. However, actual results and developments may differ materially from these expectations and forecasts due to a number of risks and uncertainties, many of which are beyond the System's control. Forward-looking statements can be identified by words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms that are intended to reference future periods.

These statements are not guarantees of future performance and involve certain risks and uncertainties and actual results may differ from those in the forward-looking statements as a result of various factors. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, financial market and economic conditions and/or developments in the United States and abroad, including the wars in Ukraine and the Middle East, the elevated level of inflation, supply chain disruptions, labor shortages and potential changes to global trade patterns;
- economic fluctuations in the agricultural, rural infrastructure, international, and farm-related business sectors;
- global and domestic adverse weather-related events, food safety, disease, pandemics and other unfavorable conditions that periodically

occur that impact agricultural productivity and income;

- climate change and/or measures to address climate change;
- changes in U.S. government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the System, the U.S. government, other government-sponsored enterprises and other financial institutions;
- actions taken by the Federal Reserve System in implementing monetary policy;
- credit, interest rate and liquidity risks inherent in System institutions lending activities;
- changes in the interest rate environment;
- changes in assumptions for determining the allowance for credit losses and fair value measurements; and
- outlooks for agricultural conditions.

Critical Accounting Policies

The System's financial statements are reported in conformity with generally accepted accounting principles in the United States of America. The significant accounting policies are critical to the understanding of the System's results of operations and financial condition because some accounting policies require complex or subjective judgments and estimates that may affect the reported amounts of certain assets or liabilities. For a complete discussion of the System's significant accounting policies, see Note 2 to the *2022 Annual Information Statement*. The following is a summary of a change to one of the most significant critical accounting policies:

- Allowance for credit losses — On January 1, 2023, the System adopted the Financial Accounting Standards Board (FASB) guidance entitled "Measurement of Credit Losses on Financial Instruments" and other subsequently issued accounting standards updates related to credit losses. This guidance

replaced the incurred loss impairment methodology with a single allowance framework that estimates the current expected credit losses (CECL) over the remaining contractual life for all financial assets measured at amortized cost and certain off-balance sheet credit exposures. Although aggregated in the System's combined financial statements, each System institution's allowance for credit losses (ACL) is specific to that institution and is not available to absorb losses realized by other System institutions.

The ACL comprises:

- the allowance for credit losses on loans (ACLL), which covers each Bank and Association's loan portfolio and is presented separately on the Condensed Combined Statement of Condition,
- the ACL on unfunded commitments, which is presented on the Condensed Combined Statement of Condition in other liabilities, and
- the ACL on investment securities, which covers held-to-maturity and available-for-sale securities and is recognized within each investment securities classification on the Condensed Combined Statement of Condition.

The ACL takes into consideration relevant information about past events, current conditions and reasonable and supportable macroeconomic forecasts of future conditions. Management of each System institution also considers the imprecision inherent in their process and methodology, which may lead to a management adjustment to the modeled ACL results. See Note 1 for additional information on the System's policies and methodologies for determining the ACL.

Changes in any of the above factors considered by management of each Bank and Association in the evaluation of losses in its loan portfolio, unfunded commitments and investment securities could result in a change in the ACL and have a direct impact on its provision for credit losses and results of operations.

Overview

Business Outlook

The outlook for the U.S. and global economies continue to show near-term resiliency despite the higher interest rate environment. The U.S. labor markets remain strong and inflation has declined from its peak, but remains above the long-term Fed target. The U.S. dollar has been stronger than expected during 2023. The combination of high borrowing costs and the strong U.S. dollar has resulted in downward pressure on U.S. export competitiveness. The consequences of the wars in Ukraine and the Middle East may impact energy and food markets and global trade.

Conditions for some agricultural industries have begun to decline resulting in narrowing margins for some producers. Additionally, uncertainty about the long-term outlook for broader U.S. and global economies could negatively impact our borrowers and our operating results.

General

The System's combined net income increased \$58 million or 1.1% to \$5.507 billion for the first nine months of 2023, as compared with net income of \$5.449 billion for the same period of 2022. The increase resulted from increases in net interest income of \$645 million and noninterest income of \$145 million, offset, in part, by a provision for credit losses of \$464 million for the first nine months of 2023, as compared to a credit loss reversal of \$9 million for the first nine months of 2022 and an increase in noninterest expense of \$269 million.

The System's net interest income increased 8.2% to \$8.481 billion for the first nine months of 2023, as compared to the same period of 2022, primarily from a higher level of average earning assets driven largely by increased loan volume and, to a lesser extent, growth in the liquidity investment portfolio. The net interest margin increased three basis points to 2.42% for the first nine months of 2023, as compared to the same period of the prior year. The increase in net interest margin resulted from a 29 basis point increase in income earned on earning assets funded by noninterest-bearing sources (principally capital). Partially offsetting the increase in net interest margin was a decrease in the net interest spread of 26 basis points to 1.95%, as compared to the first nine months of 2022, which was primarily due to higher debt costs and competitive pressures impacting loan spreads in the current rising interest rate environment as well as higher levels of investments in the liquidity portfolio,

which have lower spreads commensurate with lower risk.

The System's loan portfolio increased \$11.879 billion or 3.2% to \$385.145 billion since year-end 2022. The increase primarily resulted from increases in rural infrastructure, processing and marketing, production and intermediate-term and real estate mortgage loans offset, in part, by decreases in loans to cooperatives and agricultural export finance loans.

The System's nonperforming assets (which consist of nonaccrual loans, accruing loans 90 days or more past due and other property owned) increased \$287 million to \$2.042 billion at September 30, 2023 and represented 0.53% of total loans and other property owned, as compared with nonperforming assets¹ of \$1.755 billion at December 31, 2022, representing 0.47% of total loans and other property owned.

Funding

Notwithstanding the August 2023 credit rating downgrade described in "Risk Factors," the System continues to have reliable access to the debt capital markets to support its mission of providing credit to rural communities and agriculture.

Climate and Weather-Related Conditions

During the first nine months of 2023 and throughout 2022, severe weather events impacted U.S. agriculture. Severe weather conditions arising from La Nina weather patterns have also negatively impacted some parts of South American crop production during the previous few years. Weaker than estimated South American crop production is generally positive for U.S. agricultural trade and demand.

September 2023 marked the earth's warmest September in the 174-year National Oceanic and Atmospheric Administration record. In the United States, from January through the end of September 2023, 24 weather and climate disasters occurred, each with losses exceeding \$1 billion.

According to the U.S. Drought Monitor, as of September 30, 2023, approximately 40% of the United States was experiencing moderate to exceptional drought, concentrated mainly in the High Plains, Midwest and Southern regions. This is an

¹ Prior to the adoption of CECL on January 1, 2023, nonperforming assets included accruing restructured loans and were presented with accrued interest.

improvement in parts of the United States that were experiencing moderate to exceptional drought of 51% as of September 30, 2022 and 50% as of December 31, 2022. Although overall drought conditions improved, approximately 59% of corn production and 58% of soybean production is within the areas experiencing drought. Drought is also impacting livestock production as animal performance declines if forage falls below minimum levels. Crop insurance and advances in production practices may help to mitigate some of the impacts of severe weather events.

Agricultural Outlook

Overview

Production agriculture is a cyclical business that is heavily influenced by commodity prices, weather, government policies (including, among other things, tax, trade, immigration, crop insurance and periodic aid), interest rates and various other factors that affect supply and demand. The System utilizes the U.S. Department of Agriculture’s (USDA) analysis to provide a general understanding of the U.S. agricultural economic outlook; however, this outlook does not take into account all aspects of our business or events that occur subsequent to its issuance. References to USDA information in this section refer to U.S. agricultural market data and not System data.

The USDA’s most recent forecast (August 31, 2023) estimates net farm income (income after expenses from production in the current year) of \$141.3 billion, a \$41.7 billion or 22.8% decrease from 2022, but \$40.1 billion above the 10-year average. The forecasted decrease in net farm income for 2023 is primarily due to expected decreases in cash receipts for animals and animal products of \$11.9 billion, crop receipts of \$11.2 billion and direct government payments of \$2.9 billion as well as an increase in cash expenses of \$29.5 billion. The decrease in cash receipts for animals and animal products are predicted for milk, broilers, eggs and hogs, while cattle and turkey receipts are forecasted to increase. The expected decline in cash receipts for crops is primarily driven by decreases in soybean and corn receipts, while receipts for vegetables and melons are expected to increase. Feed, labor and livestock/poultry purchases are forecast to represent the three largest categories of agricultural production spending in 2023. Interest is the fourth largest expense and is forecast to have the largest increase, almost 39% in 2023 to \$32.7 billion, which comprises about 8% of cash expenses. Fuel and oil expenses are projected to decline driven in part by the forecast of lower diesel, gasoline and natural gas prices in 2023. However, subsequent to

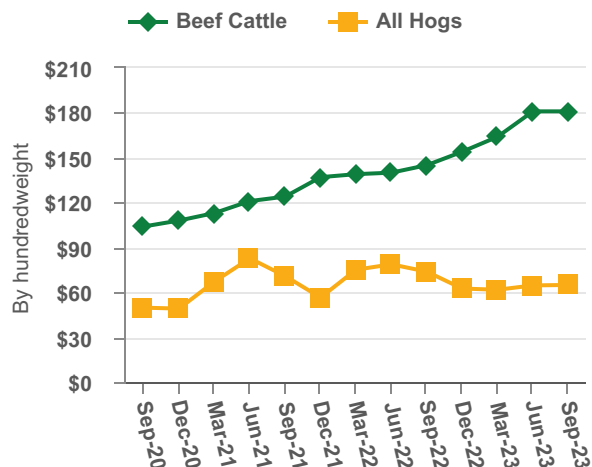
the forecast, the recent war in the Middle East may disrupt the oil markets. If the war was to escalate and disrupt energy and oil supplies, prices could increase.

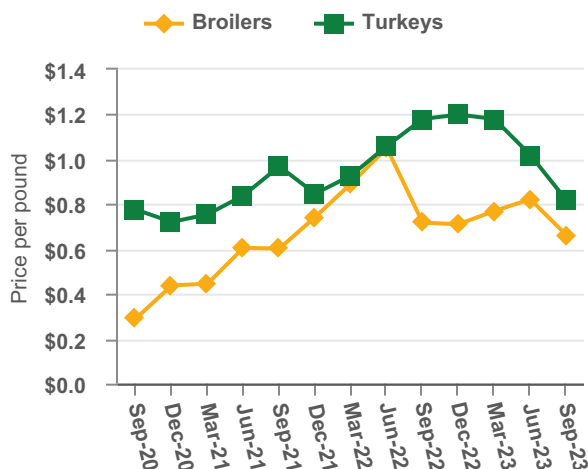
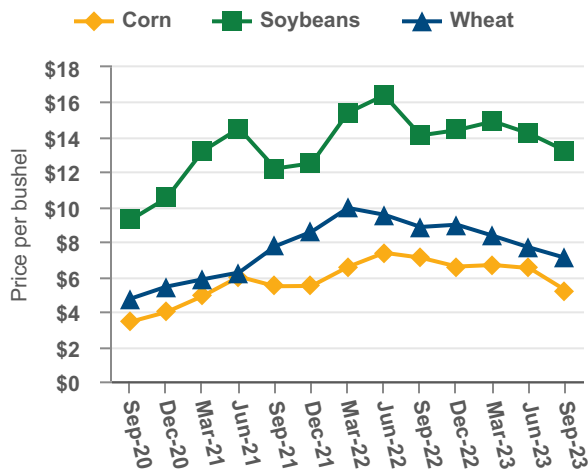
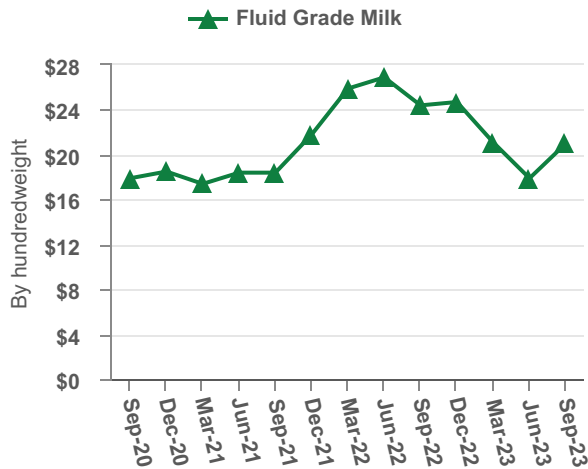
Commodity Review

Expected agricultural commodity prices can influence production decisions of farmers and ranchers, including planted acreage and marketing of crops and livestock inventories, and therefore affect the supply of agricultural commodities. Actual production levels are sensitive to weather conditions that may impact production yields. Livestock and dairy profitability are influenced by crop prices as feed is a significant input to animal agriculture.

Global economic conditions and weather volatility in key agricultural production regions can influence trade flows of agricultural products between countries. U.S. exports and imports may periodically shift to reflect short term disturbances to trade patterns and long term trends in world population demographics. Also impacting U.S. agricultural trade are global agricultural and commodity supplies and prices, price spreads, changes in the value of the U.S. dollar and the government support for agriculture.

The following charts set forth certain agricultural commodity prices, utilizing the average monthly price for the last month of each quarter by hundredweight for beef cattle, hogs and milk, per bushel for corn, soybeans and wheat and by pound for poultry, on certain dates during the period from September 30, 2020 to September 30, 2023:





During 2023, agricultural commodity prices remained elevated compared to historic levels but generally have decreased slightly compared to 2022 peak prices, except cattle prices which have increased due to reduced cattle supply. Lingering supply chain issues, elevated input costs, South American

production issues and the war in Ukraine continue to influence global supply concerns for some commodities. Specifically for crops, weather-related reductions in Argentina crop production and the loss of grain exports from Ukraine have tightened global crop supplies, helping to maintain relatively high price levels compared to historic averages. The war in Ukraine continues to be a significant market driver for crop prices given that Russia and Ukraine combined have historically constituted globally roughly 20% of corn exports, 30% of wheat exports and 75% of sunflower seed oil exports. Even though crop prices remain significantly above long term averages, input costs remain elevated, which may result in lower profit margins for most producers in 2023.

High crop prices present a challenge for livestock, dairy and poultry producers because feed is the highest variable expense to production. These producers generally have been resilient in the recent high feed cost environment due to several factors, including solid demand and restrained production. However, these support factors have begun to moderate in 2023 for the hog, poultry and dairy industries. During the first half of 2023, hog farms experienced significant reduction in profitability as hog prices declined as a result of lower export demand coupled with a slightly larger hog herd during the first quarter of 2023, as well as the elevated feed price environment. However, during the third quarter, hog prices increased and production margins returned close to breakeven for many producers. The dairy industry also experienced narrowing margins arising from lower milk prices during early 2023 primarily influenced by production growth globally, reduced export demand and high feed prices. However, milk prices have recovered as the milking herd contracted in response to poor margins, while declines in milk production per cow from the prior year also caused milk production to fall below prior year levels. During late 2022 and into 2023, the poultry industry experienced a reduction in avian influenza cases. An outbreak of avian influenza reduced egg layer production in 2022, resulting in high egg prices in 2022 and early 2023. Since March 2023, stabilizing egg layer production and reduced demand have returned egg prices close to its historical average. Broilers markets have also faced stress from higher production and increased inventory levels. Broiler integrators have responded by reducing chick placements and by closing some processing plants in an effort to balance production levels and reduce costs. The cattle industry is an exception among agricultural commodity markets in 2023 in terms of prices. Consecutive years of beef herd contraction combined

with solid domestic demand have supported historically high fed cattle prices.

Strong earnings from the 2022 crop resulted in an improved financial position for many crop producers. However, earnings are expected to decline in 2023 because of lower expected prices, and lower than expected production for certain crops. In an environment of less favorable agricultural economic conditions, the System's financial performance and credit quality measures would likely be negatively impacted. A negative impact from these less favorable conditions could be mitigated, to some extent, by

geographic and commodity diversification across the System, existing government safety net programs, crop insurance carried by most crop producers and the influence of off-farm income sources supporting agricultural-related debt. However, due to the geographic territories served by Banks and Associations, most institutions have higher geographic, commodity and borrower concentrations than does the System as a whole. In addition, agricultural producers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy.

Results of Operations

Net Interest Income

Net interest income increased \$225 million or 8.5% to \$2.882 billion and increased \$645 million or 8.2% to \$8.481 billion for the three and nine months ended September 30, 2023, as compared with \$2.657 billion and \$7.836 billion for the same periods of the prior year. The effects of changes in volume and interest rates on net interest income for the three and nine months ended September 30, 2023, as compared

with the corresponding periods of the prior year, are presented in the following table. The table distinguishes between the changes in interest income and interest expense related to average outstanding balances and the levels of average interest rates. The change in the benefit derived from funding earning assets with noninterest-bearing sources (principally capital) is reflected solely as an increase in volume.

	For the Three Months Ended September 30, 2023 vs. 2022			For the Nine Months Ended September 30, 2023 vs. 2022		
	Increase due to			Increase due to		
	Volume	Rate	Total	Volume	Rate	Total
	(in millions)					
Interest income:						
Loans	\$ 266	\$ 1,579	\$ 1,845	\$ 637	\$ 5,446	\$ 6,083
Investments	40	476	516	113	1,528	1,641
Total interest income	306	2,055	2,361	750	6,974	7,724
Interest expense:						
Systemwide Debt Securities and other...	140	1,996	2,136	293	6,786	7,079
Changes in net interest income	<u>\$ 166</u>	<u>\$ 59</u>	<u>\$ 225</u>	<u>\$ 457</u>	<u>\$ 188</u>	<u>\$ 645</u>

The changes in rates earned on interest-earning assets and rates paid on interest-bearing funds are further illustrated in the following presentation of interest rate spreads:

	Three Months Ended				Nine Months Ended			
	September 30, 2023		September 30, 2022		September 30, 2023		September 30, 2022	
	Average Balance	Annualized Rate	Average Balance	Annualized Rate	Average Balance	Annualized Rate	Average Balance	Annualized Rate
	(\$ in millions)							
Assets								
Real estate mortgage loans	\$ 172,552	5.35%	\$ 169,760	4.44%	\$ 171,440	5.18%	\$ 167,523	4.19%
Production and intermediate-term loans	66,221	7.26	59,222	4.71	63,018	6.81	57,659	3.95
Agribusiness loans	67,513	7.23	66,702	4.68	71,402	6.88	72,627	3.64
Rural infrastructure loans	50,912	6.32	40,295	4.35	48,600	6.03	38,886	3.66
Agricultural export finance loans ..	8,815	5.72	8,601	2.37	9,608	5.07	7,952	1.67
Rural residential real estate loans ..	7,086	4.32	6,958	3.88	7,037	4.18	6,898	3.78
Lease receivables	4,534	4.44	3,968	3.72	4,334	4.25	4,004	3.56
Loans to other financing institutions	1,398	4.21	1,095	2.26	1,237	3.72	1,009	1.81
Nonaccrual loans	1,818	4.62	1,237	6.03	1,662	5.13	1,164	6.83
Total loans	<u>380,849</u>	6.12	<u>357,838</u>	4.45	<u>378,338</u>	5.84	<u>357,722</u>	3.91
Federal funds sold, investments and other interest-earning assets ...	89,905	4.21	83,592	2.06	88,338	3.87	79,473	1.55
Total earning assets	<u>470,754</u>	5.75	<u>441,430</u>	4.00	<u>466,676</u>	5.47	<u>437,195</u>	3.48
Allowance for credit losses on loans	(1,682)		(1,590)		(1,562)		(1,634)	
Other noninterest-earning assets ...	18,857		16,117		18,304		15,990	
Total assets	<u>\$ 487,929</u>		<u>\$ 455,957</u>		<u>\$ 483,418</u>		<u>\$ 451,551</u>	
Liabilities and Capital								
Systemwide bonds and medium-term notes	\$ 378,440	3.70%	\$ 348,870	1.85%	\$ 371,313	3.40%	\$ 345,979	1.30%
Systemwide discount notes	19,300	5.02	23,139	1.76	23,695	4.55	22,717	0.87
Other interest-bearing liabilities ...	9,661	6.04	7,480	1.93	8,850	5.83	6,581	1.13
Total interest-bearing liabilities	<u>407,401</u>	3.82	<u>379,489</u>	1.85	<u>403,858</u>	3.52	<u>375,277</u>	1.27
Noninterest-bearing liabilities	8,450		6,576		8,556		6,819	
Capital	72,078		69,892		71,004		69,455	
Total liabilities and capital	<u>\$ 487,929</u>		<u>\$ 455,957</u>		<u>\$ 483,418</u>		<u>\$ 451,551</u>	
Net interest spread(1)		1.93		2.15		1.95		2.21
Impact of noninterest-bearing sources		0.52		0.26		0.47		0.18
Net interest margin(2)		2.45%		2.41%		2.42%		2.39%

(1) Net interest spread is the difference between the rate earned on total earning assets and the rate paid on total interest-bearing liabilities.

(2) Net interest margin is net interest income divided by average earning assets.

As illustrated in the preceding tables, net interest income increased in the three and nine months ended September 30, 2023, as compared with the same periods of the prior year. The increase primarily resulted from a higher level of average earning assets, driven largely by increased loan volume and, to a lesser extent, growth in the liquidity investment portfolio. Average earning assets increased

\$29.324 billion or 6.6% to \$470.754 billion for the three months ended September 30, 2023 and increased \$29.481 billion or 6.7% to \$466.676 billion for the nine months ended September 30, 2023, as compared with the same periods of 2022.

The net interest margin was 2.45% for the three months ended September 30, 2023, as compared with

2.41% for the same period of 2022. The increase in the net interest margin resulted from a 26 basis point increase in income earned on earning assets funded by non-interest bearing sources (principally capital). Partially offsetting the increase in net interest margin was a decrease in the net interest spread of 22 basis points to 1.93% for the three months ended September 30, 2023 from the comparable prior year period. For the nine-month period ended September 30, 2023, the net interest margin was 2.42%, as compared with 2.39% for the same period of the prior year. The net interest margin was positively impacted by a 29 basis point increase in income earned on earning assets funded by noninterest-bearing sources and was negatively impacted by a decrease in the net interest spread of 26 basis points to 1.95% for the nine months ended September 30, 2023, as compared with 2.21% for the same period of the prior year. The decline in net interest spread for the three- and nine-month periods of 2023 was principally due to higher debt costs and competitive market pressures impacting loan spreads in the current rising interest rate environment as well as higher levels of investments in the liquidity portfolio, which have lower spreads commensurate with lower risk.

Noninterest Income

Noninterest income consisted of the following:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in millions)			
Loan-related fee income	\$ 112	\$ 96	\$ 330	\$ 265
Financially-related services income	102	92	210	190
Income earned on Insurance Fund assets	44	19	114	47
Mineral income	22	31	72	79
Operating lease income	7	10	22	26
Gains (losses) on extinguishment of debt	3	4	(2)	2
Net losses on derivative and other transactions	(15)	(17)	(11)	(39)
Net gains (losses) on sales of investments and other assets	1	(1)	4	(2)
Other noninterest income	18	39	42	68
Total noninterest income	\$ 294	\$ 273	\$ 781	\$ 636

Noninterest income increased \$21 million or 7.7% to \$294 million and \$145 million or 22.8% to \$781 million for the three and nine months ended September 30, 2023, as compared with the same periods of the prior year. The increases for the three- and nine-month periods were primarily due to increases in income earned on Insurance Fund assets of \$25 million and \$67 million and loan-related fee income of \$16 million and \$65 million due to higher

Provision for Credit Losses

The System recognized provisions for credit losses of \$57 million and \$464 million for the three and nine months ended September 30, 2023, as compared with credit loss reversals of \$10 million and \$9 million for the three and nine months ended September 30, 2022. The provision for credit losses for the first nine months of 2023 primarily reflected higher specific reserves associated with a limited number of customers and forecasts of deteriorating macroeconomic conditions that may affect the agribusiness and rural infrastructure sectors. The increase also included the impact of Association mergers reflecting an accounting change for credit losses. The credit loss reversals recorded by certain System institutions for the first nine months of 2022 primarily reflected credit quality improvements and the reversal of specific reserves associated with a limited number of customers. Partially offsetting these credit loss reversals were provisions for credit losses recorded by other System institutions resulting from a higher level of overall agribusiness lending activity and specific reserves associated with a limited number of customers in the agribusiness and rural power sectors.

transaction-related lending fees. Partially offsetting the increases was a decline in other noninterest income of \$21 million and \$26 million between the three- and nine-month periods. A decrease in net losses on derivative and other transactions of \$28 million also impacted the nine-month period.

Noninterest Expense

Noninterest expense increased \$68 million or 6.8% to \$1.067 billion and \$269 million or 9.3% to \$3.149 billion for the three and nine months ended September 30, 2023, as compared with the same periods of the prior year. Noninterest expense consisted of the following:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in millions)			
Salaries and employee benefits	\$ 640	\$ 611	\$ 1,913	\$ 1,775
Occupancy and equipment expense	84	80	251	230
Purchased services	74	86	217	232
Other operating expense	269	223	771	640
Total operating expense	1,067	1,000	3,152	2,877
Net (gains) losses on other property owned		(1)	(3)	3
Total noninterest expense	\$ 1,067	\$ 999	\$ 3,149	\$ 2,880

The increase in noninterest expense for the three and nine months ended September 30, 2023 was primarily due to increases in salaries and employee benefits and other operating expense. Salaries and employee benefits increased \$29 million and \$138 million for the three and nine months ended September 30, 2023, as compared to the same periods of the prior year, primarily due to annual merit increases and higher staffing levels at certain System institutions. Other operating expense increased \$46 million and \$131 million for the three and nine months ended September 30, 2023, as compared to the same periods of the prior year, due to a post-COVID-19 pandemic return to business travel, advertising and member relations, and technology expenses. For the nine-month period ended September 30, 2023, occupancy and equipment expense increased \$21 million primarily due to higher software costs.

Operating expense statistics are as follows:

	For the Nine Months Ended September 30,	
	2023	2022
	(\$ in millions)	
Excess of net interest income over operating expense	\$ 5,329	\$ 4,959
Operating expense as a percentage of net interest income and noninterest income	34.0%	34.0%
Annualized operating expense as a percentage of average earning assets	0.90%	0.88%

Provision for Income Taxes

Provisions for income taxes were \$51 million and \$142 million for the three and nine months ended September 30, 2023, as compared with \$59 million and \$152 million for the same periods of the prior year. The effective tax rate decreased slightly to 2.5% for the first nine months of 2023 from 2.7% for the first nine months of 2022.

Risk Management

Overview

The System is in the business of making agricultural and other loans that require us to take certain risks. Management of risks inherent in our business is essential for our current and long-term financial performance. Prudent and disciplined risk management includes an enterprise risk management structure to identify emerging risks and evaluate risk implications of decisions and actions taken. Each System institution's goal is to mitigate risk, where appropriate, and to properly and effectively identify, measure, price, monitor and report risks in our business activities. Stress testing represents a component of each institution's risk management process. Each System institution is required by regulation to perform stress tests; however, the depth and frequency of these stress tests may vary by institution size and complexity.

The major types of risk for which we have exposure are structural risk, credit risk, interest rate risk, liquidity risk, operational risk, reputational risk and political risk.

Structural Risk Management

Structural risk results from the fact that the System is comprised of Banks and Associations that are cooperatively owned, directly or indirectly, by their borrowers. While System institutions are financially and operationally interdependent, they are not commonly owned. Each System institution is responsible for its own risk management and there are no formal processes or procedures in place to mandate Systemwide risk mitigation actions, including, but not limited to, reducing credit risk concentration, interest rate and counterparty credit risk across the System. This structure at times requires action by consensus or contractual agreement. Further, there is structural risk in that only the Banks are jointly and severally liable for the payment of principal and interest on Systemwide Debt Securities. Although capital at the Association level reduces a Bank’s credit exposure with respect to its wholesale loans to its affiliated Associations, this capital may not be available to support the payment of principal and interest on Systemwide Debt Securities. (See Notes 9 and 15 to the accompanying condensed combined financial statements for additional information.)

In order to monitor the financial strength of each Bank and mitigate the risks of non-performance by each Bank of its obligations under the Systemwide Debt Securities, we utilize two integrated intra-System financial performance agreements — the Amended and Restated Contractual Interbank Performance Agreement, or CIPA, and the Third Amended and Restated Market Access Agreement, or MAA. Under provisions of the CIPA, a score (CIPA score) is calculated quarterly to measure the financial condition and performance of each District (a Bank and its affiliated Associations) using various ratios that take into account the District’s and Bank’s capital, asset quality, earnings, interest-rate risk and liquidity. The CIPA score is then compared against the agreed-upon standard of financial condition and performance that each District must achieve and maintain. The measurement standard established under the CIPA is intended to provide an early-warning mechanism to assist in monitoring the financial condition of each District. The performance standard under the CIPA is based on the average CIPA score over a four-quarter period.

The MAA is designed to provide for the timely identification and resolution of individual Bank financial issues and establishes performance criteria and procedures for the Banks that provide operational oversight and control over a Bank’s access to System

funding. The performance criteria set forth in the MAA are as follows:

- the defined CIPA scores,
- the Tier 1 Leverage ratio of a Bank, and
- the Total Capital ratio of a Bank.

For additional information on the regulatory capital ratios, see page 38.

If a Bank fails to meet the MAA performance criteria, it will be placed into one of three categories. Each category gives the other System Banks and the Funding Corporation (collectively, the MAA Committee) progressively more control over a Bank that has declining financial performance under the MAA performance criteria. A “Category I” Bank is subject to additional monitoring and reporting requirements; a “Category II” Bank’s ability to participate in issuances of Systemwide Debt Securities may, subject to the discretion of the MAA Committee, be limited to refinancing maturing debt obligations; and a “Category III” Bank may, subject to the discretion of the MAA Committee, not be permitted to participate in issuances of Systemwide Debt Securities. Decisions by the MAA Committee to permit, limit or prohibit a “Category II” or “Category III” Bank to participate in the issuance of Systemwide Debt Securities are subject to oversight and override by the Farm Credit Administration. A Bank exits these categories by returning to compliance with the agreed-upon performance criteria.

The criteria for the Tier 1 Leverage ratio and the Total Capital ratio are:

	Tier 1 Leverage Ratio	Total Capital Ratio
Category I	<5.0%	<10.5%
Category II	<4.0%	<8.0%
Category III	<3.0%	<7.0%

During the first nine months of 2023, all Banks met the agreed-upon standards of financial condition and performance required by the CIPA and none of the Banks was placed in any of the three categories designated for Banks failing to meet MAA’s specified financial criteria. (See Note 15 for each Bank’s Tier 1 Leverage and Total Capital ratios.) For additional information regarding the CIPA or the MAA, see pages 22, 23 and 51 in the *2022 Annual Information Statement*.

Credit Risk Management

Credit risk arises from the potential inability of an obligor to meet its payment obligation and exists in our outstanding loans, letters of credit, unfunded loan commitments, investment portfolios and derivative counterparty credit exposures. (See pages 30 through 32 for a discussion regarding derivative counterparty exposure.)

System institutions manage credit risk associated with their retail lending activities through an analysis of the credit risk profile of an individual borrower. Each Bank and Association has its own set of underwriting standards and lending policies, approved by its board of directors, that provides direction to its loan officers. Underwriting standards include, among other things, an evaluation of:

- character — borrower integrity and credit history,
- capacity — repayment capacity of the borrower based on cash flows from operations or other sources of income,
- collateral — protects the lender in the event of default and represents a potential secondary source of loan repayment,
- capital — ability of the operation to survive unanticipated risks, and
- conditions — intended use of the loan funds.

The retail credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, financial position, and collateral, which includes an analysis of credit scores for certain loans. Repayment capacity focuses on the borrower's ability to repay the loan based on cash flows from

operations or other sources of income, including off-farm income.

Although System institutions monitor credit risk individually, the System has established a quarterly process to report System large loan exposures (outstanding loan amounts plus any unfunded loan commitments). A System risk management committee reviews and monitors large loan exposures to existing individual customers. The threshold for monitoring large loan exposures is \$1.5 billion and reflects the System's risk-bearing capacity. In certain limited circumstances, a threshold of \$1.75 billion for monitoring large loan exposures may be considered. Because it is possible that one or more System institutions may simultaneously make credit available to a customer that may, in the aggregate, exceed these limits, the process provides for quarterly data to be compiled on existing large loan exposures with notice provided to the Banks and Associations of the largest loan exposures, including all loan exposures to a borrower greater than 75% of the \$1.5 billion level or \$1.125 billion. While this process captures information regarding large loan exposures, any credit decision resides with the individual System institutions. At September 30, 2023 one exposure was above \$1.5 billion but less than \$1.75 billion, as compared to no exposures above \$1.5 billion at December 31, 2022. Ten exposures at September 30, 2023 and eight exposures at December 31, 2022 exceeded \$1.125 billion.

For a detailed discussion of our credit risk management practices, see pages 51 through 53 in the *2022 Annual Information Statement*.

Loan Portfolio

The System's loan portfolio consists only of retail loans. For additional information on the types of loans we make, see pages 8 and 9 in the *2022 Annual Information Statement*. Bank loans to affiliated

Associations have been eliminated in the condensed combined financial statements. Loans outstanding consisted of the following:

	September 30, 2023	December 31, 2022
	(in millions)	
Real estate mortgage	\$ 174,916	\$ 172,806
Production and intermediate-term	69,267	66,427
Agribusiness:		
Processing and marketing	45,211	41,973
Loans to cooperatives	15,726	19,525
Farm-related business	6,552	5,998
Rural infrastructure:		
Power	32,477	27,880
Communication	13,886	12,453
Water/waste facilities	5,367	3,882
Agricultural export finance	8,689	10,071
Rural residential real estate	7,156	7,043
Lease receivables	4,586	4,146
Loans to other financing institutions	1,312	1,062
Total loans	\$ 385,145	\$ 373,266

Loan volume increased \$11.879 billion or 3.2% to \$385.145 billion at September 30, 2023, as compared with \$373.266 billion at December 31, 2022, primarily as a result of increases in rural infrastructure, processing and marketing, production and intermediate-term and real estate mortgage loans offset, in part, by decreases in loans to cooperatives and agricultural export finance loans.

Real estate mortgage loans increased \$2.110 billion or 1.2% during the first nine months of 2023. The primary driver of the increase was growth in new originations outpacing annual and seasonal repayments despite the higher interest rate environment.

Production and intermediate-term loans increased \$2.840 billion or 4.3%, as compared with December 31, 2022, primarily due to increased seasonal utilization of operating lines of credit.

Processing and marketing loans increased \$3.238 billion or 7.7%, as compared with December 31, 2022, primarily due to increased draws on operating lines of credit by existing customers as a result of higher commodity and input prices.

Loans to cooperatives decreased \$3.799 billion or 19.5%, during the first nine months of 2023, primarily resulting from lower levels of seasonal

financing requirements at grain and farm supply cooperatives, which typically reach a low point in summer or early fall.

Power loans increased \$4.597 billion or 16.5%, as compared with December 31, 2022, primarily due to new originations in the rural electric regulated, rural electric distribution and renewable energy sectors.

Communication loans increased \$1.433 billion or 11.5% during the first nine months of 2023, primarily due to financing digital infrastructure for broadband network expansion.

Water/waste facilities loans increased \$1.485 billion or 38.3%, as compared with December 31, 2022, primarily due to demand for rural utility water projects.

Agricultural export finance loans decreased \$1.382 billion or 13.7%, as compared with December 31, 2022, due to lower levels of import/export loan demand.

System institutions reduce credit risk through certain federal government guarantee programs, such as the Farm Service Agency and Small Business Administration. As of September 30, 2023 and December 31, 2022, \$9.219 billion and \$9.592 billion of loans had varying levels of federal government guarantees. System institutions also limit, to some

extent, the credit risk of certain real estate mortgage loans by entering into agreements with others that provide long-term standby commitments to purchase System loans and other credit guarantees. The amount of loans under these other credit guarantees was \$3.204 billion at September 30, 2023, of which

\$2.713 billion was provided by Farmer Mac, as compared with total credit guarantees of \$3.160 billion at December 31, 2022, of which \$2.624 billion was provided by Farmer Mac. For additional information on Farmer Mac, see page 12 in the *2022 Annual Information Statement*.

Nonperforming Assets

Nonperforming assets and related credit quality statistics are as follows:

	September 30, 2023	December 31, 2022¹
	(in millions)	
Nonaccrual loans:		
Real estate mortgage	\$ 756	\$ 518
Production and intermediate-term	664	336
Agribusiness	271	334
Rural infrastructure	62	28
Rural residential real estate	34	32
Lease receivables	22	18
Total nonaccrual loans	<u>1,809</u>	<u>1,266</u>
Accruing restructured loans:		
Real estate mortgage		149
Production and intermediate-term		44
Agribusiness		41
Rural residential real estate		31
Total accruing restructured loans	<u>0</u>	<u>265</u>
Accruing loans 90 days or more past due:		
Real estate mortgage	98	165
Production and intermediate-term	72	4
Agribusiness	8	10
Rural infrastructure	17	
Rural residential real estate		2
Lease receivables	12	15
Total accruing loans 90 days or more past due	<u>207</u>	<u>196</u>
Total nonperforming loans	<u>2,016</u>	<u>1,727</u>
Other property owned	26	28
Total nonperforming assets	<u>\$ 2,042</u>	<u>\$ 1,755</u>

¹Prior to the adoption of CECL on January 1, 2023, nonperforming assets included accruing restructured loans and were presented with accrued interest.

	September 30, 2023	December 31, 2022
Nonaccrual loans as a percentage of total loans	0.47%	0.34%
Nonperforming assets as a percentage of total loans and other property owned	0.53	0.47
Nonperforming assets as a percentage of capital	2.83	2.56

The following table presents the nonaccrual loan activity:

	For the Nine Months Ended September 30,	
	2023	2022
	(in millions)	
Balance at beginning of period.....	\$ 1,266	\$ 1,176
Additions:		
Gross amounts transferred into nonaccrual.....	1,492	651
Recoveries.....	19	23
Advances.....	309	129
Other, net.....		21
Reductions:		
Charge-offs.....	(154)	(40)
Transfers to other property owned (book value).....	(12)	(29)
Returned to accrual status.....	(141)	(138)
Repayments.....	(950)	(502)
Other, net.....	(20)	
Balance at end of period.....	<u>\$ 1,809</u>	<u>\$ 1,291</u>

Nonaccrual loans increased \$543 million or 42.9% during the first nine months of 2023, primarily due to credit quality deterioration impacting a limited number of borrowers in the tree fruits, hogs, field crops and biofuels sectors. Nonaccrual loans that were current as to principal and interest were 56.8% of total nonaccrual loans at September 30, 2023, as compared with 63.6% at December 31, 2022.

Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans was 0.36% at September 30, 2023, as compared with 0.24% at September 30, 2022. Loans classified under the Farm Credit Administration's Uniform Loan Classification System as a percentage of total loans was as follows:

	September 30, 2023	December 31, 2022
Acceptable.....	96.0%	96.8%
Other assets especially mentioned.....	2.1	1.6
Substandard/doubtful.....	1.9	1.6
Total.....	<u>100.0%</u>	<u>100.0%</u>

Allowance for Credit Losses

Effective January 1, 2023, System institutions adopted the CECL accounting guidance that replaced the incurred loss impairment methodology with a single allowance framework for all financial assets measured at amortized cost and certain off-balance sheet credit exposures. This framework requires that each System institution management's estimate reflects credit losses over the asset's remaining expected life and considers the forecasts of

macroeconomic conditions. The expected life of each financial instrument is determined by considering its contractual term and expected prepayments, when appropriate, and excludes expected extensions, renewals and modifications unless the extension or renewal options are not unconditionally cancellable.

Although aggregated in the System's combined financial statements, the ACL of each System institution is maintained at an appropriate level for expected losses and is specific to that institution and is not available to absorb losses realized by other System institutions. See Note 1 for additional information.

The ACL comprises:

- the ACLL, which is presented separately on the Condensed Combined Statement of Condition,
- the ACL on unfunded commitments, which is presented on the Condensed Combined Statement of Condition in other liabilities, and
- the ACL on investment securities, which covers held-to-maturity and available-for-sale securities and is recognized within each investment securities classification on the Condensed Combined Statement of Condition.

Determining the appropriateness of the allowance is complex and requires judgment by management of each System institution about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio may result in significant changes in the allowance for credit losses in those future periods. Loans are evaluated on the amortized cost basis, including premiums, discounts and fair value hedge accounting

adjustments. System institutions may utilize either a single economic scenario or multiple scenarios over their determined reasonable and supportable forecast period, generally between 12 and 36 months. Subsequent to the forecast period, System institutions revert to historical loss experience to inform the estimate of losses for the remaining contractual life of their loan portfolios.

The economic forecasts are updated on a quarterly basis. These factors include, but are not limited to, macroeconomic variables such as unemployment rates, real gross domestic product levels, net farm income, corporate bond spreads and agricultural commodity prices. In addition, loan and borrower characteristics, such as internal credit risk ratings, delinquency status, collateral type, and the remaining term of the loan, adjusted for expected prepayments are also factors considered by managements. Each System institution also considers the imprecision inherent in their process and methodology, emerging risks and other subjective factors not yet reflected in the models, which may lead to a management adjustment to the modeled ACL 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.

Each System institution employs a disciplined process and methodology to establish its ACLL that has two basic components: first, an asset-specific component involving individual loans that do not share risk characteristics with other loans and the measurement of expected credit losses for such individual loans; and second, a pooled component for estimated expected credit losses for pools of loans that share similar risk characteristics. 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 the System institution's appraisal policy, the fair value of collateral-dependent loans is based upon independent third-party appraisals or on collateral valuations prepared by in-house appraisers. When an updated

appraisal or collateral valuation is received, management of the institution 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 generally based on loan type, commodity, internal credit risk rating, delinquency category or business segment or a combination of these classes. At the System level, the loans are aggregated and classified by loan type. The models calculate an expected life-of-loan loss percentage for each loan category (pool) by considering the probability of default and loss given default risk ratings assigned to each loan. The probability of default percentages are based on the historical migration of loans from performing to nonaccrual through probability of default ratings within each pool of loans. Loss given default percentages are determined by historical severity of loss based on the aggregate lifetime losses incurred per loss given default within each pool of loans.

The System's combined ACL was \$1.875 billion at September 30, 2023, as compared with \$1.798 billion at December 31, 2022. The increase resulted from a provision for credit losses of \$464 million during the first nine months of 2023, offset in part by the reduction in the ACL of \$184 million from the cumulative effect of adoption of CECL, merger related adjustment of \$75 million and net charge-offs of \$130 million. The provision for credit losses primarily reflected specific reserves associated with a limited number of customers and was also impacted by the mergers of Associations that occurred during the first nine months of 2023 for which an initial allowance for credit losses of \$69 million was required to be established for non-purchased credit deteriorated loans in accordance with the CECL guidance.

As previously described, production agriculture is a cyclical business and therefore System borrowers will face challenges from time to time due to reduced net farm income and volatility in commodity prices. In general, System borrowers' financial positions have improved because of the rise in commodity prices and ad hoc government support provided in the past few years. Further, System underwriting standards require strong collateral support for real estate mortgage loans. By regulation, real estate mortgage loans must have a loan-to-value ratio of 85% or less at origination or up

to 97% if guaranteed by federal, state or other governmental agency. Most of the System's real estate mortgage loans at origination had a loan-to-value ratio below the statutory maximum of 85%. These factors help to mitigate the System's exposure to loan losses. At September 30, 2023, \$846 million of the System's

\$1.809 billion of nonaccrual loans had specific reserves. The remaining \$963 million of nonaccrual loans were evaluated and determined not to need a specific reserve. The following table presents the activity in the allowance for credit losses:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022*	2023	2022*
	(in millions)			
Allowance for credit losses on loans - beginning of period	\$ 1,691	\$ 1,614	\$ 1,576	\$ 1,632
Cumulative effect of a change in accounting principle			(132)	
Adjustment due to Association mergers ^{1,2}		(17)	(75)	(25)
Charge-offs:				
Real estate mortgage	(2)	(1)	(4)	(4)
Production and intermediate-term	(8)	(4)	(47)	(10)
Agribusiness	(65)		(93)	(5)
Rural infrastructure	(6)	(1)	(7)	(20)
Rural residential real estate		(1)		(2)
Lease receivables		(2)	(3)	(2)
Total charge-offs	(81)	(9)	(154)	(43)
Recoveries:				
Real estate mortgage	3	2	4	4
Production and intermediate-term	2	4	11	19
Agribusiness	4	1	7	2
Rural infrastructure	1		1	1
Rural residential real estate		1		1
Agricultural export finance	1		1	
Total recoveries	11	8	24	27
Net charge-offs	(70)	(1)	(130)	(16)
Provision for credit losses (credit loss reversal) on loans	45	(10)	427	(9)
Reclassification (to) from reserve for unfunded commitments ³		(46)		(42)
Other	2		2	
Allowance for credit losses on loans - end of period	\$ 1,668	\$ 1,540	\$ 1,668	\$ 1,540
Allowance for credit losses on unfunded commitments - beginning of period	\$ 189	\$ 185	\$ 222	\$ 189
Cumulative effect of a change in accounting principle			(58)	
Provision for credit losses on unfunded commitments	14		39	
Reclassification from (to) allowance for loan losses ³		46		42
Allowance for credit losses on unfunded commitments - end of period	\$ 203	\$ 231	\$ 203	\$ 231
Allowance for credit losses on investments - beginning of period	\$ 6		\$ 0	
Cumulative effect of a change in accounting principle			6	
Credit loss reversal on investments	(2)		(2)	
Allowance for credit losses on investments - end of period	\$ 4	\$ 0	\$ 4	\$ 0
Total allowance for credit losses	\$ 1,875	\$ 1,771	\$ 1,875	\$ 1,771

*Prior to January 1, 2023, System institutions' allowance for loan losses was based on probable and estimable losses inherent in their loan portfolios, as more fully discussed below.

¹ Adjustment for the nine months ended September 30, 2023 includes the initial allowance for credit losses on purchased credit deteriorated (PCD) loans of \$19 million. There was no adjustment for the three months ended September 30, 2023 related to PCD loans. See Note 1 to the accompanying combined financial statements for additional information on PCD loans and Note 8 for Association mergers.

² Represents the elimination during the three and nine months ended September 30, 2023 of the allowance for loan losses in connection with Association mergers. See Note 8 to the accompanying condensed combined financial statements.

³ Represents the reclassifications during the three and nine months ended September 30, 2022 between the allowance for loan losses and the reserve for unfunded commitments primarily as a result of advances on or repayments of seasonal lines of credit or other loans.

During the first nine months of 2023, four separate mergers of Associations were completed. As a result of the mergers, \$19.275 billion of assets and \$16.180 billion of liabilities were assumed, which were recorded at fair value. Of the loans acquired, a portion were determined to be PCD on the date of purchase. Such loans are initially recorded at purchase

price less the ACLL recognized at acquisition. Subsequent credit loss activity is recorded within the provision for credit losses. The amount of PCD loans at acquisition were \$410 million and a related ACLL of \$19 million was recorded and included in the total acquired asset fair value as part of the acquisition.

Allowance for credit losses on loans by loan type is as follows:

	September 30, 2023		December 31, 2022 ¹	
	Amount	%	Amount	%
	(\$ in millions)			
Real estate mortgage	\$ 369	22.1%	\$ 342	21.7%
Production and intermediate-term	367	22.0	368	23.4
Agribusiness	497	29.8	574	36.4
Rural infrastructure	326	19.5	196	12.4
Agricultural export finance	33	2.0	30	1.9
Rural residential real estate	27	1.6	14	0.9
Lease receivables	48	2.9	51	3.2
Loans to other financing institutions	1	0.1	1	0.1
Total	<u>\$ 1,668</u>	<u>100.0%</u>	<u>\$ 1,576</u>	<u>100.0%</u>

¹Prior to January 1, 2023, System institutions' allowance for loan losses was based on probable and estimable losses inherent in their loan portfolios, as more fully discussed below.

The allowance for credit losses on loans as a percentage of total loans outstanding and as a percentage of certain other credit quality indicators is shown below:

	September 30, 2023	December 31, 2022
Allowance for credit losses on loans as a percentage of:		
Total loans	0.43%	0.42%
Nonperforming assets	81.7	89.8
Nonaccrual loans	92.2	124.5
	September 30, 2023	September 30, 2022
Annualized net charge-offs to average loans outstanding during the nine months ended	0.05%	0.01%

Prior to January 1, 2023, System institutions maintained the allowance for loan losses at a level considered adequate to provide for probable and estimable losses inherent in the loan portfolios. The allowance included components for loans collectively evaluated for impairment, loans individually evaluated

for impairment and loans acquired with deteriorated credit quality. For those loans collectively evaluated, System institutions used the two-dimensional loan rating model. System institutions considered borrower, industry, geographic and portfolio concentrations, along with current developments within certain sectors, and modeling imprecision in the determination of the allowance for loan losses for loans collectively evaluated. Generally, for loans individually evaluated, the allowance for loan losses represented the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, if the loan is collateral dependent.

Interest Rate Risk Management

Interest rate risk is the risk of loss of future earnings or long-term market value of equity that may result from changes in interest rates. This risk can produce variability in the System's net interest income and the long-term value of the System's capital position. The System actively manages the following risks:

- Yield curve risk — results from changes in the level, shape, and implied volatility of the

yield curve. Changes in the yield curve often arise due to the market's expectation of future interest rates at different points along the yield curve.

- Repricing risk — results from the timing differences (mismatches) between interest-bearing assets and liabilities that limit the ability to alter or adjust the rates earned on assets or paid on liabilities in response to changes in market interest rates.
- Option risk — results from “embedded options” that are present in many financial instruments, including the right to prepay loans before the contractual maturity date. Loan features that provide the borrower with flexibility frequently introduce a risk exposure to the lender. For example, a fixed-rate loan may provide a potential borrower with a rate guarantee, an option to lock-in the loan rate for a period of time prior to closing, which protects the borrower from an increase in interest rates between the time loan terms are negotiated and the loan closes. If interest rates increase while the rate guarantee is in effect and no measures are taken to hedge the rate guarantee, System institutions may realize a lower spread than expected when the loan is funded.

Borrowers may also have the option to repay a loan's principal ahead of schedule. If interest rates fall, System institutions may be forced to reinvest principal repaid from higher rate loans at a lower rate, which may reduce the interest rate spread unless the underlying debt can be similarly refinanced.

Interest rate caps are another form of embedded options that may be present in certain investments and floating- and adjustable-rate loans. Interest rate caps typically prevent the investment or loan rate from increasing above a defined limit. In a rising interest rate environment, the spread may be reduced if caps limit upward adjustments to floating investment or loan rates while debt costs continue to increase.

Interest rate floors are also embedded options that may be present in certain investments and floating- and adjustable-rate loans. Interest rate floors prevent the loan or investment rate from decreasing below a certain defined limit. In a declining rate environment, the spread may be widened if

the floor limits the downward adjustments to a floating-rate investment or loan rate as underlying debt costs continue to decrease below the floor rate.

- Basis risk — results from unexpected changes in the relationships among interest rates and interest rate indexes. Basis risk can produce volatility in the spread earned on a loan or an investment relative to its cost of funds. This risk arises when the floating-rate index tied to a loan or investment differs from the index on the Systemwide Debt Security issued to fund the loan or investment.

The goal in managing interest rate risk is to maintain stable earnings and preserve the long-term market value of equity. In most cases, the wholesale funding provided by a Bank to an Association matches the terms and embedded options of the Association's retail loans. This funding approach shifts the majority of the interest rate risk associated with retail loans from the Association to its funding Bank where interest rate risk is generally managed centrally. A limited number of Associations manage their own interest rate risk associated with their retail loans and investments as part of the Associations' asset/liability management (ALM) processes. These Associations order and manage the desired mix of debt from their funding Bank and are referred to herein as ALM Associations. As of September 30, 2023, ALM Associations had combined assets of approximately 10% of System total assets.

All Banks and Associations are responsible for developing ALM policies and strategies to manage interest rate risk that are commensurate with the complexity of their business activities and for monitoring and reporting this risk on a regular basis. These policies include guidelines for measuring and evaluating exposures to interest rate risk. In addition, the policies establish limits for interest rate risk and define the role of the board of directors in delegating day-to-day responsibility for interest rate risk management to Bank or Association management. That authority generally is delegated to an ALM committee, made up of senior Bank or Association managers. The policies define the composition of the committee and its responsibilities. Interest rate risk management is also subject to certain intra-System agreements, including the CIPA and MAA, and regulatory oversight by the Farm Credit Administration.

One of the primary benefits of our status as a government-sponsored enterprise debt issuer is that,

through the Funding Corporation and its selling group, the System has daily access to the debt markets and, under normal market conditions, significant flexibility in structuring the maturity and types of debt securities we issue to match asset cash flows. This ability to access the debt markets helps us minimize the risk that interest rates might change between the time loan commitments are made and the time they are funded.

Flexibility in structuring debt enables us to issue Systemwide Debt Securities that offset most of the primary interest rate risk exposures embedded in our loans. For example, by issuing floating-rate Systemwide Debt Securities we are able to minimize the basis risk exposure presented by similarly-indexed, floating-rate loans. As discussed above, some of our fixed-rate loans may provide borrowers with the option to prepay their loans. In most interest rate environments, we are able to significantly offset the risk created by a prepayment option by funding prepayable fixed-rate loans with callable debt. Callable debt provides us with the option to retire debt early to offset prepayment risk in earning assets or refinance debt in a declining interest rate environment.

Approximately 76% of our fixed-rate loans at September 30, 2023 provide the borrowers with the option to prepay their loan at any time without fees, and the remainder of the System's fixed-rate loans contain provisions requiring prepayment fees to partially or fully compensate the System for the cost of retiring the debt prior to the maturity date, some of which may be non-callable.

The Banks participate in the derivatives markets to manage interest rate risk. Our use of derivatives is detailed later in this section.

Interest Rate Risk Measurements

Each Bank and Association is required to assess and manage interest rate risk. For Banks and ALM Associations, the primary approaches to managing interest rate risk are interest rate gap analysis, net interest income sensitivity analysis, market value of equity sensitivity analysis and duration gap analysis. These measures are calculated on a monthly basis and the assumptions used in these analyses are monitored routinely and adjusted as necessary. The Banks and ALM Associations use sophisticated simulation models to develop interest rate sensitivity estimates. These models are periodically back tested and reviewed by third parties for reasonableness.

Interest Rate Risk Management Results

Interest Rate Gap Analysis

The interest rate gap analysis presents a comparison of interest-sensitive assets and liabilities in defined time segments as of September 30, 2023. The interest rate gap analysis is a static indicator, which does not reflect the dynamics of balance sheet, cash flows, interest rate and spread changes and financial instrument optionality, and may not necessarily indicate the sensitivity of net interest income in a changing interest rate environment. Within the gap analysis, gaps are created when an institution uses its capital to fund assets. Capital reduces the amount of debt that otherwise would be required to fund a certain level of assets. The quantity of earning assets will exceed the quantity of interest-bearing liabilities in any repricing interval where capital provides part of the funding. The gap table below includes anticipated cash flows on interest sensitive assets and liabilities given the current level of interest rates.

	Repricing Intervals				
	0-6 Months	6 Months to 1 Year	1-5 Years	Over 5 Years	Total
	(\$ in millions)				
Floating-rate loans:					
Indexed/adjustable-rate loans	\$ 80,472	\$ 134	\$ 645	\$ 716	\$ 81,967
Administered-rate loans	60,919				60,919
Fixed-rate loans:					
Fixed-rate with prepayment or conversion fees...	8,270	5,244	23,651	19,589	56,754
Fixed-rate without prepayment or conversion fees	34,173	12,743	77,701	59,079	183,696
Nonaccrual loans				1,809	1,809
Total gross loans	183,834	18,121	101,997	81,193	385,145
Federal funds sold, securities purchased under resale agreements, investments and other interest-earning assets					
	44,362	5,106	23,963	13,239	86,670
Total earning assets	228,196	23,227	125,960	94,432	471,815
Interest-bearing liabilities:					
Callable bonds and notes	25,549	11,701	58,502	56,353	152,105
Noncallable bonds and notes	155,237	20,524	55,247	18,741	249,749
Subordinated debt				398	398
Other interest-bearing liabilities	8,628			785	9,413
Total interest-bearing liabilities	189,414	32,225	113,749	76,277	411,665
Effect of interest rate swaps and other derivatives ...	18,405	(8,304)	(12,646)	2,545	
Total interest-bearing liabilities adjusted for swaps and other derivatives	207,819	23,921	101,103	78,822	411,665
Interest rate sensitivity gap (total earning assets less total interest-bearing liabilities adjusted for swaps and other derivatives)					
	\$ 20,377	\$ (694)	\$ 24,857	\$ 15,610	\$ 60,150
Cumulative gap	\$ 20,377	\$ 19,683	\$ 44,540	\$ 60,150	
Cumulative gap as a percentage of total earning assets					
	4.32%	4.17%	9.44%	12.75%	

As illustrated above, the System had a positive gap position between its earning assets and interest-bearing liabilities for the zero to six months repricing interval as measured on September 30, 2023 and reflects the System's asset-sensitive position during this time period.

Typically, the net interest income of an institution that is asset sensitive will be favorably impacted in a rising rate environment and unfavorably impacted in a declining rate environment. However, the System's net interest income benefits in a declining interest rate environment due to its ability to exercise call options on callable debt.

The System's net interest spread, a component of its net interest margin, may also react in a different

manner due to certain conditions at the time an earning asset or interest-bearing liability reprices. These conditions include competitive pressures on spreads or rates, the shape of the yield curve and how capital is deployed to fund earning assets. In addition, a significant portion of the System's floating-rate loans are administered-rate loans that, unlike indexed loans, require definitive action by management to change the interest rate. The interest rates charged on administered-rate loans may reflect managements' assessments of whether rate changes are feasible or warranted in view of market conditions. Therefore, the actual interest rates charged on administered-rate loans may not reflect the movement of interest rates in the markets, thereby creating volatility in net interest income.

The System's cumulative gap position in the zero to six months repricing interval increased to 4.32% at September 30, 2023 from 3.51% at December 31, 2022.

Sensitivity Analysis

In addition to the static view of interest rate sensitivity shown by the gap analysis, each Bank and ALM Association conducts simulations of net interest income and market value of equity. The sensitivity analysis incorporates the effects of leverage and the optionality of interest sensitive assets and liabilities due to interest rate changes. The two primary scenarios used for the analysis reflect the impact of interest rate shocks upward and downward (i.e., immediate, parallel changes upward and downward in the yield curve) on projected net interest income and on market value of equity. The Banks and ALM Associations also use other types of measures to manage interest rate risk including rate ramps (gradual change in rates) and yield curve slope changes.

The upward and downward shocks are generally based on movements of 100 and 200 basis points in interest rates, which are considered significant enough to capture the effects of embedded options and convexity within the assets and liabilities so that underlying risk may be revealed. Under these simulations, the System's aggregate sensitivity to interest rate changes was:

	September 30, 2023			
	-200	-100	+100	+200
Change in net interest income.....	-1.88%	-1.11%	2.06%	3.24%
Change in market value of equity.....	7.90%	3.73%	-3.49%	-6.73%
	December 31, 2022			
	-200	-100	+100	+200
Change in net interest income.....	-2.64%	-1.30%	2.35%	3.99%
Change in market value of equity.....	8.65%	4.11%	-3.76%	-7.19%

Each Bank's and ALM Association's interest rate risk management policy establishes limits for changes in interest rate sensitivity under these simulations in accordance with its asset/liability management policies. District measurements are presented in the Supplemental Financial Information on page F-67.

In addition to the interest rate scenarios required for reporting and regulatory purposes, the Banks and ALM Associations periodically perform additional scenario analyses to study the effects of changes in

critical modeling assumptions — for example, the impact of increased/decreased prepayments, changes in the relationship of the System's funding cost to other benchmark interest rates, additional non-parallel shifts in the yield curve, and changes in market volatility. (For a more detailed discussion of sensitivity analysis and prepayment modeling assumptions, see pages 70 and 71 in the *2022 Annual Information Statement*.)

Duration Gap Analysis

Another risk measurement is duration, which we calculate using a simulation model. Duration is the weighted average maturity (typically measured in months or years) of an instrument's cash flows, weighted by the present value of those cash flows. As such, duration provides an estimate of an instrument's sensitivity to small changes in market interest rates. The duration gap is the difference between the estimated durations of assets and liabilities. All else being equal, an institution with a small duration gap has less exposure to interest rate risk than an institution with a large duration gap.

The System's aggregate duration gap was a positive 3.0 months at September 30, 2023 and a positive 3.7 months at December 31, 2022. Generally, a duration gap within the range of a positive six months to a negative six months indicates a small exposure to changes in interest rates.

Duration gap provides a relatively concise and static measure of the interest rate risk inherent in the balance sheet, but it is not directly linked to expected future earnings performance. An institution's overall exposure to interest rate risk is a function not only of the duration gap, but also of the financial leverage inherent in the institution's capital structure. For the same duration gap, an institution with more capital will have a lower overall percentage exposure to interest rate risk than one with less capital and more leverage.

There are some limitations to duration analysis as balance sheets are dynamic. Durations change over time and as the composition of a portfolio changes.

Derivative Products

Derivative products are a part of our interest rate risk management process and supplement our issuance of debt securities in the capital markets. Derivative financial instruments are used as hedges to manage interest rate and liquidity risks and to lower the overall cost of funds. System institutions do not hold or enter into derivative transactions for trading purposes.

Derivative products are subject to regulatory compliance obligations, including, among other things, accounting, reporting, clearing and margining. Clearing and margining are discussed in more detail below.

The primary types of derivative products used and hedging strategies employed are described on page 72 of the *2022 Annual Information Statement*. For additional information on derivative products and hedging activities, see Note 12 to the accompanying condensed combined financial statements.

The aggregate notional amount of the System's derivative products, most of which consisted of interest rate swaps, decreased \$4.592 billion to \$89.535 billion at September 30, 2023, as compared with \$94.127 billion at December 31, 2022. The aggregate notional amount of these instruments, which is not included in the Condensed Combined Statement of Condition, is indicative of the System's activities in derivative financial instruments, but is not an indicator of the level of credit risk associated with these instruments. The exposure to credit risk is a small fraction of the aggregate notional amount.

In addition, the System had put option contracts with a total notional amount of 110,000 barrels of oil at December 31, 2022 to protect against a decline in oil prices. No such contracts were outstanding as of September 30, 2023.

By using derivative instruments, System institutions are exposed to counterparty credit risk. If a counterparty fails to fulfill its performance obligations

under a derivative contract, the credit risk exposure will equal the fair value gain in a derivative. When the fair value of a derivative is positive, the counterparty would owe us money on early termination of the derivative, thus creating credit risk. When the fair value of the derivative is negative, we would owe the counterparty money on early termination of the derivative, and, therefore, assume no credit risk.

The System clears a significant portion of derivative transactions through a futures commission merchant (FCM), with a clearinghouse (i.e. a central counterparty (CCP)). Cleared derivatives require the payment of initial and variation margin as a protection against default. To minimize the risk of credit losses for non-cleared derivatives, System institutions typically enter into master agreements that govern all derivative transactions with a counterparty, which include bilateral collateral agreements requiring the exchange of collateral to offset credit risk exposure. In some instances, the bilateral exchange of collateral is required by regulation, whereas in other instances it is based on dollar thresholds of exposure that consider a counterparty's creditworthiness. For additional information related to derivatives, see pages 73 through 75 in the *2022 Annual Information Statement*.

The Banks may enter into derivatives with their customers, including Associations, as a service to enable customers to transfer, modify or reduce their interest rate risk by transferring this risk to the Bank. The Banks substantially offset the interest rate risk by concurrently entering into offsetting agreements with non-System institutional derivative counterparties.

The exposure on derivatives by counterparty credit rating (Moody's) that would be owed to us due to a default or early termination by our counterparties at September 30, 2023 and December 31, 2022 were:

	September 30, 2023					December 31, 2022				
	Number of Counterparties	Notional Principal	Credit Exposure	Collateral Held	Exposure, Net of Collateral	Number of Counterparties	Notional Principal	Credit Exposure	Collateral Held	Exposure, Net of Collateral
	(\$ in millions)									
Bilateral derivatives:										
Aa1	1	\$ 435	\$ 24	\$ 9	\$ 15					
Aa2	3	4,842	260	270	10	4	\$ 8,413	\$ 281	\$ 262	\$ 26
Aa3	1	70	3	4		1	900	25	26	
A1	3	4,548	197	208		3	3,617	194	199	
A3	2	953	77	83		2	1,289	83	85	
Baa2	1	1				1	2			
Cleared derivatives(1)	3	66,587	15		15	3	68,032	6		6
Total	14	\$77,436	\$ 576	\$ 574	\$ 40	14	\$82,253	\$ 589	\$ 572	\$ 32

(1) Represents derivative transactions cleared with central counterparties, which are not rated. Excluded from the table is initial margin posted by three Banks and one Association totaling \$322 million and \$260 million at September 30, 2023 and December 31, 2022 related to cleared derivative transactions.

Note: Due to grouping of counterparties by credit rating, exposure, net of collateral may not represent the difference between credit exposure and collateral held. The above table excludes \$12.098 billion and \$11.873 billion in notional amount of derivative financial instruments at September 30, 2023 and December 31, 2022 related to interest rate swaps that two Banks entered into with certain of their customers. Also excluded is \$1 million in notional amount of derivative financial instruments at both September 30, 2023 and December 31, 2022 related to forward commitments that one Association has entered into to hedge interest rate risk on interest rate locks.

At September 30, 2023, the Banks' counterparties posted \$469 million in cash and \$105 million in securities as collateral with us, as compared with \$567 million in cash and \$5 million in securities at December 31, 2022. None of the Banks had posted collateral with respect to their obligations under these agreements at both September 30, 2023 and at December 31, 2022.

The LIBOR Transition

As more fully discussed on pages 76 through 78 in the *2022 Annual Information Statement*, US dollar LIBOR settings (including with respect to overnight, one, three, six and twelve month tenors of US dollar LIBOR), as anticipated, were discontinued or declared non-representative immediately after June 30, 2023.

Each Bank, Association and the Funding Corporation implemented LIBOR transition plans in accordance with Farm Credit Administration's guidance to address the risks associated with the discontinuance of LIBOR.

Prior to the discontinuance of LIBOR, System institutions' LIBOR exposure arose from certain LIBOR-based rates used in loans made to customers, investment securities purchased, preferred stock

issued, derivative transactions entered into by the Banks and Associations, and Systemwide Debt Securities issued by the Funding Corporation on the Banks' behalf. All Systemwide Debt Securities and substantially all System institution loans and other financial products that reference LIBOR have been amended to incorporate adequate fallbacks, including, where appropriate, the SOFR-based fallbacks recommended by the Alternative Reference Rates Committee (the "ARRC").

To the extent that any System contracts, including loans made by System institutions, do not have or were not amended to include adequate fallback provisions to replace LIBOR, such contracts were amended by operation of law under the federal Adjustable Interest Rate (LIBOR) Act ("LIBOR Act") and rules thereunder to include a statutorily designated fallback to LIBOR. Under the Federal Reserve Board's rule implementing certain provisions of the LIBOR Act ("Regulation ZZ"), on the LIBOR replacement date (the first London banking day after June 30, 2023), the Federal Reserve Board-selected benchmark replacement, based on SOFR and including any tenor spread adjustment as provided by Regulation ZZ, automatically replaced references to overnight, one, three, six, and twelve month LIBOR in

all remaining System contracts that did not mature before the LIBOR replacement date and did not contain adequate fallback language.

At September 30, 2023, \$375 million of loans and \$30 million of investments continue to bear LIBOR-indexed based variable rates that were set before the LIBOR replacement date, and preferred stock issuances totaling \$1.025 billion that currently have fixed dividend rates that were to convert to LIBOR-indexed variable-rates in the future. The LIBOR-indexed rate on such LIBOR loans, investments, and preferred stock will be transitioned as set forth above to a non-LIBOR-indexed rate on the next scheduled reset date to the extent they remain outstanding at that date.

Liquidity Risk Management

General

Liquidity risk management is necessary to ensure our ability to meet our financial obligations. These obligations include the repayment of Systemwide Debt Securities as they mature, the ability to fund new and existing loans and other funding commitments, and the ability to fund operations all within a cost-effective manner. A primary objective of liquidity risk management is to plan for unanticipated changes in the capital markets. The Banks and Funding Corporation have established a Contingency Funding Program to provide for contingency financing mechanisms and procedures to address potential disruptions in the System's communications, operations and payments systems, as well as the ability to handle events that threaten continuous market access by the Banks or disrupt the Funding Corporation's normal operations. Under this Contingency Funding Program, the Funding Corporation has the option to finance maturing Systemwide Debt Securities through the issuance of Systemwide discount notes either directly to institutional investors or through the selling group. In addition, the Funding Corporation, in consultation with the Banks, may also issue Systemwide bonds directly to institutional investors. The Funding Corporation, on behalf of the Banks, may also incur other obligations, such as Federal funds purchased, that would be the joint and several obligations of the Banks and would be insured by the Insurance Corporation to the extent funds are available in the Insurance Fund.

In addition, each Bank maintains contingency funding plans that address actions each Bank would consider in the event that there is not ready access to

traditional funding sources. These potential actions include drawing on existing uncommitted lines of credit with various financial institutions, borrowing overnight via federal funds, using investment securities as collateral to borrow cash, selling investment securities under repurchase agreements, using the proceeds from maturing investments and selling liquid investments.

The System does not have a guaranteed line of credit from the U.S. Treasury or the Federal Reserve. However, the Insurance Corporation has an agreement with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the Federal Financing Bank would advance funds to the Insurance Corporation under certain limited circumstances. Under its existing statutory authority, the Insurance Corporation may use these funds to provide assistance to the System Banks in exigent market circumstances that threaten the Banks' ability to pay maturing debt obligations. The agreement provides for advances of up to \$10 billion and will remain in full force and effect until terminated by either the Insurance Corporation or the Federal Financing Bank. The decision whether to seek funds from the Federal Financing Bank is at the discretion of the Insurance Corporation, and each funding obligation of the Federal Financing Bank is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by the System.

Funding Sources

Our primary source of liquidity is from the ability to issue Systemwide Debt Securities, which are the general unsecured joint and several obligations of the Banks. The Banks continually raise funds to support the mission to provide credit and related services to the agricultural and rural sectors, repay maturing Systemwide Debt Securities, build liquidity and meet other obligations. As government-sponsored enterprises, the Banks have had access to the global capital markets. This access has traditionally provided a dependable source of competitively priced debt that is critical to support our mission of providing funding to the agricultural and rural sectors. The U.S. government does not guarantee, directly or indirectly, the payment of principal or interest on any Systemwide Debt Securities issued by the Banks.

Investments

As more fully described on page 79 in the *2022 Annual Information Statement*, by regulation a Bank is authorized to hold eligible investments in an amount not to exceed 35% of a Bank's average loans outstanding for the quarter. Investments are utilized for the purposes of maintaining a diverse source of liquidity and managing short-term surplus funds and reducing interest rate risk and, in so doing, they may enhance profitability. At September 30, 2023, no Bank exceeded the 35% limit.

In addition, the Associations are authorized to hold securities as eligible risk management investments that are issued by, or are unconditionally guaranteed or insured as to the timely payment of principal and interest by, the U.S. government or its

agencies with the approval of its affiliated Bank. Associations may also hold portions of USDA Guaranteed Loans purchased in the secondary market as eligible risk management investments. Aggregate eligible risk management investments may not exceed 10% of an Association's total average 90-day outstanding loan balance. At September 30, 2023, no Association exceeded the 10% limit.

System institutions adopted the CECL standard on January 1, 2023, as more fully described in Note 1. In accordance with the standard, credit losses on investment securities are required to be recognized through the ACL, instead of a direct write-down of the amortized cost basis of the security. The ACL for available-for-sale investments totaled \$4 million at September 30, 2023.

Bank eligible investments (carried at fair value) must comply with the regulatory eligibility criteria to be included in the liquidity investment portfolio and

for reporting purposes are shown by credit ratings issued by Moody's Investors Service, S&P Global Ratings, or Fitch Ratings as follows:

<u>September 30, 2023</u>	Eligible Investments				Total
	AAA/Aaa	A1/P1/F1	Split Rated¹	A/A	
	(in millions)				
Federal funds sold and securities purchased under resale agreements ²		\$ 9,790			\$ 9,790
Commercial paper, bankers' acceptances, certificates of deposit and other securities		7,560	\$ 2,849	\$ 95	10,504
U.S. Treasury securities			17,036		17,036
U.S. agency securities			2,199		2,199
Mortgage-backed securities:					
Agency collateralized			31,968		31,968
Agency whole-loan pass through			2,100		2,100
Private label-FHA/VA			20		20
Asset-backed securities	\$ 1,092		4,789		5,881
Total	\$ 1,092	\$ 17,350	\$ 60,961	\$ 95	\$ 79,498

<u>December 31, 2022</u>	Eligible Investments				Total
	AAA/Aaa	A1/P1/F1	Split Rated¹	A/A	
	(in millions)				
Federal funds sold and securities purchased under resale agreements		\$ 13,053			\$ 13,053
Commercial paper, bankers' acceptances, certificates of deposit and other securities		6,629	\$ 2,849	\$ 124	9,602
U.S. Treasury securities			20,680		20,680
U.S. agency securities			1,680		1,680
Mortgage-backed securities:					
Agency collateralized			29,337		29,337
Agency whole-loan pass through			2,360		2,360
Private label-FHA/VA			23		23
Asset-backed securities	\$ 952		3,552		4,504
Total	\$ 952	\$ 19,682	\$ 60,481	\$ 124	\$ 81,239

¹Investment that received the highest credit rating from at least one rating organization.

²Includes \$50 million of securities purchased under resale agreements that are unrated.

As of September 30, 2023 the split rating on investments in U.S. Treasury, U.S. agency and agency mortgage-backed securities is the result of S&P Global Ratings and Fitch Ratings maintaining the U.S. government's long-term sovereign credit rating of

AA+, while Moody's Investors Service maintained ratings of Aaa for U.S. government and agency securities. Prior to August 1, 2023, Fitch Ratings also rated the U.S. sovereign as AAA. For additional information on the downgrade, see "Risk Factors."

If a Bank held investment no longer meets the regulatory eligibility criteria referred to above, the investment becomes ineligible for regulatory liquidity calculation purposes. Under Farm Credit Administration regulations, if a Bank held investment is eligible when purchased but no longer satisfies the eligibility criteria referred to above, the Bank may continue to hold it subject to the following requirements:

- the Bank must notify the Farm Credit Administration within 15 calendar days after such determination,
- the Bank must not use the investment to satisfy its liquidity requirement,
- the Bank must continue to include the investment in the investment portfolio limit calculation,
- the Bank may continue to include the investment as statutory collateral at lower of cost or market, and

- the Bank must develop a plan to reduce the risk posed by the investment.

The Farm Credit Administration has the authority to require a Bank to divest any investment at any time for failure to comply with its regulation or for safety and soundness reasons. As of September 30, 2023, the Farm Credit Administration has not required disposition of any of these securities. Bank managements do not believe that events will occur that would require them to dispose of any of these securities.

Ineligible securities (carried at fair value) held by the Banks totaled \$501 million at September 30, 2023 and \$558 million at December 31, 2022 and represented 0.6% and 0.7% of Federal funds and available-for-sale investments at September 30, 2023 and December 31, 2022, respectively.

The types of mortgage-backed and asset-backed securities that are included in the Banks' investment portfolio were:

	September 30, 2023			December 31, 2022		
	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses
	(in millions)					
Mortgage-backed securities:						
Agency collateralized.....	\$ 35,125	\$ 31,968	\$ (3,157)	\$ 31,996	\$ 29,337	\$ (2,659)
Agency whole-loan pass through...	2,588	2,100	(488)	2,768	2,360	(408)
Private label-FHA/VA.....	82	71	(11)	91	80	(11)
Total mortgage-backed securities.....	<u>\$ 37,795</u>	<u>\$ 34,139</u>	<u>\$ (3,656)</u>	<u>\$ 34,855</u>	<u>\$ 31,777</u>	<u>\$ (3,078)</u>
Asset-backed securities:						
Small business loans.....	\$ 5,351	\$ 4,789	\$ (562)	\$ 3,991	\$ 3,552	\$ (439)
Auto loans.....	390	389	(1)	608	605	(3)
Credit card receivables.....	333	327	(6)	117	113	(4)
Equipment loans.....	298	295	(3)	159	158	(1)
Other.....	83	81	(2)	79	76	(3)
Total asset-backed securities.....	<u>\$ 6,455</u>	<u>\$ 5,881</u>	<u>\$ (574)</u>	<u>\$ 4,954</u>	<u>\$ 4,504</u>	<u>\$ (450)</u>

Other Investments

As mentioned above, Associations are permitted to hold investments but they are limited to securities that are issued by, or are unconditionally guaranteed or insured as to the timely payment of principal and interest, the U.S. government or its agencies. Mortgage-backed securities issued by Farmer Mac are

also considered allowable investments for both Banks and Associations but are excluded from the Banks' eligible investment limitation and the Banks' liquidity calculations. These Farmer Mac securities are backed by farm and ranch loans or USDA-guaranteed portion of loans.

Other investments outstanding that are classified as held-to-maturity (carried at amortized cost) are as follows:

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
	(in millions)	
Small Business Administration and other government guaranteed securities.....	\$ 3,828	\$ 2,241
Farmer Mac securities.....	569	610
Rural America bonds and Agricultural Rural Community bonds.....	31	37
Total.....	<u>\$ 4,428</u>	<u>\$ 2,888</u>

Other investments outstanding that are classified as available-for-sale (carried at fair value) are as follows:

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
	(in millions)	
U.S. Treasury securities.....	\$ 1,749	\$ 1,449
Small Business Administration and other government guaranteed securities.....	181	129
Rural home loan securities.....	110	128
Farmer Mac securities.....	9	10
Other securities.....	17	25
Total.....	<u>\$ 2,066</u>	<u>\$ 1,741</u>

Liquidity Standard

The Farm Credit Administration regulations on liquidity set forth requirements for the Banks to:

- maintain board policies and management procedures to monitor, measure, manage and mitigate liquidity and other related risks;
- maintain a three-tiered liquidity reserve. The first tier of the liquidity reserve must consist of a sufficient amount of cash and/or cash-like instruments to cover each Bank's principal portion of maturing obligations and other borrowings for 15 days. The second and third tiers of the liquidity reserve must contain cash, cash-like instruments, and/or eligible highly liquid instruments that are sufficient to cover the Bank's obligations for the next 15 and subsequent 60 days, respectively;
- establish a supplemental liquidity buffer, in addition to the three tiers set forth immediately above, that would provide a

longer term, stable source of funding beyond the 90-day minimum and is comprised of cash and eligible investments; and

- maintain a Contingency Funding Plan to ensure sources of liquidity are sufficient to fund normal operations under a variety of stress events.

The number of days of liquidity is calculated by comparing the principal portion of maturing Systemwide Debt Securities and other borrowings of each Bank with the total amount of cash, cash equivalents and eligible investments maintained by that Bank. For purposes of calculating liquidity, liquid assets are reflected at fair value discounted for potential exposure to adverse market value changes that might be recognized upon liquidation or sale and include only the eligible investments of the Banks.

At September 30, 2023, each Bank met the individual tiers' minimums of the liquidity reserve and exceeded the aggregate regulatory minimum 90 days of liquidity. Each Bank's aggregate liquidity position ranged from 166 to 197 days at September 30, 2023. The Banks' aggregate liquidity position was 176 days at September 30, 2023, as compared with 180 days at December 31, 2022. (See Note 15 to the accompanying condensed combined financial statements for each Bank's liquidity position at September 30, 2023 and December 31, 2022.)

Cash provided by the System's operating activities (primarily generated from net interest income in excess of operating expenses) of \$5.682 billion and \$5.100 billion for the first nine months of 2023 and 2022 provides an additional source of liquidity for the System that is not reflected in the individual Bank's calculation of days of liquidity under the standard. Further, funds in the Insurance Fund would be used to repay maturing Systemwide Debt Securities, to the extent available, if no other sources existed to repay the debt.

Capital Adequacy and the Ability to Repay Systemwide Debt Securities

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services. We believe a sound capital position is critical to providing protection to investors in Systemwide Debt Securities and our long-term financial success.

The primary source of capital formation in the System is net income earned and retained. Capital accumulated through earnings has been partially offset by cash patronage distributions to stockholders. Retained earnings is the most significant component of capital. As of September 30, 2023, retained earnings

totaled \$58.200 billion and represented 80.5% of capital, as compared with \$57.273 billion and 83.5% at December 31, 2022. Capital as a percentage of assets increased to 14.7% at September 30, 2023, as compared with 14.4% at December 31, 2022.

Farm Credit Administration Capital Requirements

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

Ratio	Primary Components of Numerator	Denominator	Minimum Requirement	Minimum with Buffer	Banks*	Associations
Common Equity Tier 1 (CET1) Capital	Unallocated retained earnings (URE) and common cooperative equities (qualifying capital stock and allocated equity) ¹	Risk-weighted assets	4.5%	7.0%	8.3% - 16.3%	9.9% - 32.6%
Tier 1 Capital	CET1 Capital and non-cumulative perpetual preferred stock	Risk-weighted assets	6.0%	8.5%	13.0% - 16.8%	12.1% - 32.6%
Total Capital	Tier 1 Capital, adjusted allowance for credit losses ² , other common cooperative equities ³ , and term preferred stock and subordinated debt ⁴	Risk-weighted assets	8.0%	10.5%	13.2% - 16.9%	12.5% - 33.9%
Tier 1 Leverage	Tier 1 Capital (at least 1.5% must be URE and URE equivalents)	Total assets	4.0%	5.0%	5.1% - 6.8%	10.4% - 32.4%
Permanent Capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	Risk-weighted assets	7.0%	N/A	13.0% - 16.8%	12.2% - 33.0%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	URE and URE Equivalents	Total assets	1.5%	N/A	2.0% - 4.6%	4.7% - 32.2%

* See Note 15 to the accompanying condensed combined financial statements for each Bank's Total Capital ratio and Tier 1 Leverage ratio at September 30, 2023 and December 31, 2022.

¹ Equities subject to a minimum redemption or revolvment period of 7 or more years

² Capped at 1.25% of risk-weighted assets and includes allowance for credit losses on loans and unfunded commitments

³ Equities subject to a minimum redemption or revolvment period of 5 or more, but less than 7 years

⁴ Equities subject to a minimum redemption or revolvment period of 5 or more years

Interdependency of the Banks and the Associations

Understanding the System's structure and the interdependent nature of the Banks and the Associations is critical to understanding our capital adequacy.

As previously discussed, each Bank is primarily liable for the repayment of Systemwide Debt Securities issued on its behalf, as well as being liable for Systemwide Debt Securities issued on behalf of the other Banks. The Banks, through the issuance of Systemwide Debt Securities, generally finance the wholesale loans to their affiliated Associations who lend the proceeds to their customers. CoBank, as an Agricultural Credit Bank, makes loans to agricultural

and rural infrastructure cooperatives and businesses, and other eligible borrowers, as well as Associations. Each Bank's ability to repay Systemwide Debt Securities is due, in large part, to each of its Association's ability to repay its loan from the Bank. As a result, the Banks continually monitor the risk-bearing capabilities of each affiliated Association through various mechanisms, including testing the reliability of each Association's credit classifications and prior-approval of certain Association loan transactions. Capital, allowance for credit losses on loans and earnings at the Association level also reduce the credit exposure that each Bank has with respect to the loans between the Bank and its affiliated Associations.

Since an Association's ability to obtain funds from sources other than its affiliated Bank is significantly limited, the financial well-being of the Bank and its ability to continue to provide funds is very important to the Association. In addition to the equity the Associations are required to purchase in connection with their direct loans from their affiliated Bank, under each Bank's bylaws, the Bank is authorized, under certain circumstances, to require its affiliated Associations and certain other equity holders to purchase additional Bank equity subject to certain limits or conditions. Further, the Banks generally possess indirect access to certain financial resources of their affiliated Associations through loan-pricing provisions and through Bank-influenced operating and financing policies and agreements for its District. (See Notes 9 and 15 to the accompanying condensed combined financial statements for further discussion of Bank and Association capital.)

Notwithstanding the foregoing, only the Banks, and not the Associations, are jointly and severally liable for the repayment of Systemwide Debt Securities. Other than as described above, and subject to various regulatory and contractual conditions and limitations, the Banks do not have direct access to the capital of their affiliated Associations. In addition, any indirect access that the Banks may have to the capital of the Associations may be limited during stressed conditions in a deteriorating agricultural economic environment. Moreover, capital in one Association is not typically available to address capital needs of another Association or of a non-affiliated Bank.

Insurance Fund

An additional layer of protection for Systemwide Debt Security holders is the Insurance Fund that insures the timely payment of principal and interest on these securities.

The primary sources of funds for the Insurance Fund are:

- premiums paid by the Banks, the cost of which may be passed on to the Associations, and
- earnings on assets in the Insurance Fund.

In the event a Bank is unable to timely pay Systemwide Debt Securities for which the Bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent available to insure the timely payment of principal and interest on the debt obligations. However, because of other authorized uses of the Insurance Fund, all of which benefit the Banks and Associations, or the

magnitude of the default, there is no assurance that amounts in the Insurance Fund will be available and sufficient to fund the timely payment of principal and interest on Systemwide Debt Securities in the event of a default by a Bank.

Due to the restricted use of funds in the Insurance Fund, the assets of the Insurance Fund have been included as a restricted asset and the capital of the Insurance Fund as restricted capital in the System's condensed combined financial statements. As of September 30, 2023, the assets in the Insurance Fund totaled \$7.249 billion. (See Note 6 to the accompanying condensed combined financial statements and the Supplemental Combining Information on pages F-59 and F-61 for condensed combining statements of condition and income that illustrate the impact of including the Insurance Fund in the System's condensed combined financial statements.)

The Insurance Corporation assesses premiums to ensure the assets in the Insurance Fund for which no specific use has been identified or designated are maintained at the "secure base amount." The Farm Credit Act, as amended, requires the secure base amount to be maintained at 2% of aggregate outstanding insured debt (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of aggregate outstanding insured debt as the Insurance Corporation in its sole discretion determines to be actuarially sound. Insurance premiums are established by the Insurance Corporation with the objective of maintaining the secure base amount at the level required by the Farm Credit Act.

As required by the Farm Credit Act, as amended, if at the end of any calendar year, the aggregate amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to transfer the excess funds above the secure base, less the Insurance Corporation's projected annual operating expenses, to the Allocated Insurance Reserves Accounts for each Bank.

At September 30, 2023, as determined by the Insurance Corporation, the Insurance Fund for which no specific use has been identified or designated was 2.05% of adjusted insured obligations, as compared with 1.97% at December 31, 2022.

Joint and Several Liability

The provisions of joint and several liability of the Banks with respect to Systemwide Debt Securities would be invoked if the available amounts in the

Insurance Fund were exhausted. Once joint and several liability is triggered, the Farm Credit Administration is required to make “calls” to satisfy the liability first on all non-defaulting Banks in the proportion that each non-defaulting Bank’s available collateral (collateral in excess of the aggregate of the Bank’s collateralized obligations) bears to the aggregate available collateral of all non-defaulting Banks. If these calls do not satisfy the liability, then a

further call would be made in proportion to each non-defaulting Bank’s remaining assets. On making a call on non-defaulting Banks with respect to a Systemwide Debt Security issued on behalf of a defaulting Bank, the Farm Credit Administration is required to appoint the Insurance Corporation as the receiver for the defaulting Bank, and the receiver must expeditiously liquidate the Bank.

System Capitalization

The changes in capital for the nine months ended September 30, 2023 were:

	Capital				
	Combined Banks	Combined Associations	Insurance Fund	Combination Entries	System Combined
	(in millions)				
Balance at December 31, 2022	\$ 20,164	\$ 50,622	\$ 6,673	\$ (8,858)	\$ 68,601
Adjustment to beginning balance due to the change in accounting for credit losses	35	120			155
Balance at January 1, 2023	20,199	50,742	6,673	(8,858)	68,756
Net income	1,959	4,196	576	(1,224)	5,507
Change in accumulated other comprehensive loss	(323)	(9)		54	(278)
Recharacterization of other comprehensive loss due to fair value adjustments related to the Association mergers		51			51
Preferred stock issued		21			21
Preferred stock retired	(8)	(3)			(11)
Preferred stock dividends	(120)	(36)			(156)
Capital stock and participation certificates issued	428	62		(421)	69
Capital stock, participation certificates and retained earnings retired	(164)	(76)		77	(163)
Equity issued or recharacterized upon Association mergers		2,407			2,407
Equity retired or recharacterized upon Association mergers		(2,761)			(2,761)
Patronage	(901)	(1,116)		845	(1,172)
Balance at September 30, 2023	<u>\$ 21,070</u>	<u>\$ 53,478</u>	<u>\$ 7,249</u>	<u>\$ (9,527)</u>	<u>\$ 72,270</u>

Note: System combined capital reflected eliminations of approximately \$7.9 billion and \$7.5 billion of Bank equities held by Associations as of September 30, 2023 and December 31, 2022. System combined capital also reflected net eliminations of transactions between System entities, primarily related to accruals, and retained earnings allocations by certain Banks to their Associations. (See Notes 9 and 15 to the accompanying condensed combined financial statements.)

As previously discussed, the Banks and Associations adopted the CECL standard on January 1, 2023, which resulted in an increase to the beginning balance of capital as reflected in the table above.

Combined Bank-only information is considered meaningful because only the Banks are jointly and severally liable for payment of principal and interest on Systemwide Debt Securities. Amounts in the Insurance Fund are included in the System’s combined financial statements because, under the Farm Credit

Act, these amounts can only be used for the benefit of the Banks and Associations. Before joint and several liability can be invoked, available amounts in the Insurance Fund would be used to make principal and interest payments on Systemwide Debt Securities. Combined Bank capital and the Insurance Fund increased \$1.482 billion since December 31, 2022 to \$28.319 billion at September 30, 2023, primarily due to income earned and retained. Combined Bank-only capital as a percentage of combined Bank-only assets

was 4.8% at both September 30, 2023 and December 31, 2022.

Combined Bank-only net income was \$1.959 billion and \$2.109 billion for the nine months ended September 30, 2023 and 2022. The combined Bank-only net income reflects the earnings from investments, Bank wholesale loans to Associations, and retail loans, the majority of which consist of CoBank's domestic loans to cooperatives and other eligible borrowers and loans to finance agricultural export transactions. The Banks' wholesale loans to Associations represented 55% of the assets on the combined Bank-only balance sheet at September 30, 2023. These loans carry less risk than retail loans because the Associations operate under General Financing Agreements with their affiliated Banks and a regulatory framework that includes maintaining certain minimum capital standards, adequate reserves, and prudent underwriting standards. Based on the lower risk of loans to the Associations, the Banks typically operate with more leverage and lower earnings than would be expected from a retail bank.

Combined Association capital increased \$2.856 billion since December 31, 2022 to \$53.478 billion at September 30, 2023. The growth in Association capital resulted primarily from income earned and retained. Combined Association capital as a percentage of combined Association assets was 17.7% at September 30, 2023 and 17.5% at December 31, 2022. Capital at the Association level reduces the Banks' credit exposure with respect to wholesale loans between the Banks and each of their affiliated Associations.

Accumulated other comprehensive loss, net of tax, at September 30, 2023 and December 31, 2022 was comprised of the following components:

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
	(in millions)	
Unrealized losses on investments available-for-sale, net	\$ (5,129)	\$ (4,543)
Unrealized gains on cash flow hedges, net	470	187
Pension and other benefit plans	(1,056)	(1,136)
	<u>\$ (5,715)</u>	<u>\$ (5,492)</u>

Accumulated other comprehensive loss increased \$223 million during the first nine months of 2023 as a result of an increase in interest rates, which decreased the fair value of existing fixed-rate investment

securities. Investments are primarily comprised of U.S. Treasury and U.S. agency debt securities.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events, including the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and the risk of fraud by employees or persons outside the System. Each Bank's and Association's board of directors is required, by regulation, to adopt an internal control policy that provides adequate direction to the institution in establishing effective control over and accountability for operations, programs and resources. The policy must include, at a minimum, the following items:

- direction to management that assigns responsibility for the internal control function to an officer of the institution,
- adoption of internal audit and control procedures,
- direction for the operation of a program to review and assess its assets,
- adoption of loan, loan-related assets and appraisal review standards, including standards for scope of review selection and work papers and supporting documentation,
- adoption of asset quality classification standards,
- adoption of standards for assessing credit administration, including the appraisal of collateral, and
- adoption of standards for the training required to initiate a program.

In general, System institutions address operational risk through the organization's internal control framework. Exposure to operational risk is typically identified by senior management with the assistance of internal audit, and higher risk areas receive more scrutiny.

However, no control system, no matter how well designed and operated, can provide absolute assurance that the objectives of the control systems are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud or errors can be detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and the

breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by individual acts, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part on certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may be inadequate because of changes in conditions, or the compliance with the policies or procedures may deteriorate.

Reputational Risk Management

Reputation risk is defined as the negative impact resulting from events, real or perceived, that shape the image of the System or any of its entities. The System could be harmed if its reputation were impacted by negative publicity about the System as a whole, an individual System entity, the agricultural industry in general, or government sponsored enterprises.

Given the unique structure of the System, managing reputational risk is the direct responsibility of each System entity. (See “Structural Risk Management” on page 19 of this Quarterly Information Statement for a discussion on the structure of the System).

Committees or entities that serve the System at the national level, including the Presidents’ Planning Committee and The Farm Credit Council, will communicate guidance to the System for reputational issues that have broader consequences for the System as a whole. These committees and entities support those business and other practices that are consistent with our mission. (See pages 12 and 15 in the *2022 Annual Information Statement* for additional information).

Political Risk Management

Political risk to the System is the risk actions taken by the U.S. government may negatively impact the System or the agriculture industry. System institutions are instrumentalities of the federal government and are intended to further governmental policy concerning the extension of credit to or for the benefit of agriculture and rural America. The System may be significantly affected by federal legislation, such as changes to the Farm Credit Act, or indirectly, such as agricultural appropriations bills. In addition, our borrowers may also be significantly affected by changes in federal farm policy, agricultural appropriations bills and U.S. trade and tax policy.

We manage political risk by actively supporting The Farm Credit Council, which is a full-service, federated trade association located in Washington, D.C. representing the System before Congress, the Executive Branch, and others. The Farm Credit Council provides the mechanism for grassroots involvement in the development of System positions and policies with respect to federal legislation and government actions that impact the System. In addition, each District has a District Farm Credit Council that is a regional trade association dedicated to promoting the interests of cooperative farm lending institutions and their borrowers in their respective Districts.

Regulatory Matters

On October 12, 2023, the Farm Credit Administration approved a final rule governing the Farm Credit System's service to young, beginning, and small (YBS) farmers and ranchers. The rule requires Banks that fund the direct-lender Associations to annually review and approve each Association’s YBS programs. The rule also requires direct-lender Associations to enhance their YBS programs within their strategic plans. The final rule becomes effective on February 1, 2024.

On October 5, 2023, the Farm Credit Administration approved a final rule on cyber risk management that requires each System institution to develop and implement a comprehensive, written cyber risk management program. Each institution's cyber risk plan must require the institution to take the actions to assess internal and external risk factors, identify potential system and software vulnerabilities, establish a risk management program for the risks identified, develop a cyber risk training program, set policies for managing third-party relationships, maintain robust internal controls and establish institution board reporting requirements. The final rule will become effective on January 1, 2025.

On April 14, 2022, the Farm Credit Administration approved a final rule that amends certain regulations to address changes in accounting principles generally accepted in the United States. Such changes reflect the CECL methodology that will replace the incurred loss methodology upon adoption. Credit loss allowances related to loans, lessor’s net investments in leases, and held-to-maturity debt securities have been defined as adjusted allowances for credit losses and will be included in a System institution’s Tier 2 capital up to 1.25% of the System institution’s total risk-weighted assets. Credit loss allowances for available-for-sale debt securities

and purchased credit impaired assets would not be eligible for inclusion in a System institution's Tier 2 capital. In addition, the final rule does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. The rule became effective on January 1, 2023.

On July 8, 2021, the Farm Credit Administration approved a proposed rule to revise its regulatory capital requirements to define and establish risk-weightings for High Volatility Commercial Real Estate (HVCRE) exposures by assigning a 150% risk-weighting to such exposures, instead of the current

100%. The proposed rule would further align the Farm Credit Administration's risk-weightings with federal banking regulators and recognizes the increased risk posed by HVCRE exposures. The public comment period ended on January 24, 2022.

Recently Adopted or Issued Accounting Pronouncements

See pages F-8 through F-9 to the accompanying condensed combined financial statements for the recently adopted or issued accounting pronouncements.

**INDEX TO CONDENSED COMBINED FINANCIAL STATEMENTS AND
SUPPLEMENTAL COMBINING AND FINANCIAL INFORMATION
September 30, 2023**

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FARM CREDIT SYSTEM
CONDENSED COMBINED STATEMENT OF CONDITION
(in millions)

	September 30, 2023	December 31, 2022
	(unaudited)	
A S S E T S		
Cash	\$ 5,139	\$ 3,470
Federal funds sold and securities purchased under resale agreements	9,790	13,053
Investments (Note 2)		
Available-for-sale (amortized cost of \$75,465 and \$73,375, respectively)	70,209	68,744
Other investments held-to-maturity (fair value of \$4,325 and \$2,684, respectively)	4,428	2,888
Other investments available-for-sale (amortized cost of \$2,160 and \$1,847, respectively)	2,066	1,741
Loans (Note 3)	385,145	373,266
Less: allowance for credit losses on loans (Notes 1 and 4)	(1,668)	(1,576)
Net loans	383,477	371,690
Accrued interest receivable	4,913	3,572
Premises and equipment	1,828	1,718
Other assets (Note 5)	3,651	3,514
Restricted assets (Note 6)	7,249	6,673
Total assets	\$ 492,750	\$ 477,063
L I A B I L I T I E S A N D C A P I T A L		
Systemwide Debt Securities		
Due within one year:		
Systemwide discount notes	\$ 16,738	\$ 27,353
Systemwide bonds and medium-term notes	126,785	117,423
	143,523	144,776
Due after one year:		
Systemwide bonds and medium-term notes	258,331	245,201
Total Systemwide Debt Securities (Note 7)	401,854	389,977
Subordinated debt	398	398
Other bonds	7,546	5,599
Notes payable and other interest-bearing liabilities	1,867	2,463
Accrued interest payable	2,609	1,762
Other liabilities (Note 5)	6,206	8,263
Total liabilities	420,480	408,462
Commitments and contingencies (Note 14)		
Capital (Note 9)		
Preferred stock	3,426	3,416
Capital stock and participation certificates	2,115	2,134
Additional paid-in-capital	6,995	4,597
Restricted capital (Note 6)	7,249	6,673
Accumulated other comprehensive loss, net of tax	(5,715)	(5,492)
Retained earnings	58,200	57,273
Total capital	72,270	68,601
Total liabilities and capital	\$ 492,750	\$ 477,063

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

FARM CREDIT SYSTEM
CONDENSED COMBINED STATEMENT OF INCOME
(in millions)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
	(unaudited)			
Interest income				
Investments, Federal funds sold and securities purchased under resale agreements	\$ 946	\$ 430	\$ 2,564	\$ 923
Loans	5,825	3,980	16,583	10,500
Total interest income	6,771	4,410	19,147	11,423
Interest expense				
Systemwide bonds and medium-term notes	3,501	1,615	9,471	3,383
Systemwide discount notes	242	102	808	148
Other interest-bearing liabilities	146	36	387	56
Total interest expense	3,889	1,753	10,666	3,587
Net interest income	2,882	2,657	8,481	7,836
Provision for credit losses (credit loss reversal)	57	(10)	464	(9)
Net interest income after provision for credit losses/credit loss reversal	2,825	2,667	8,017	7,845
Noninterest income				
Loan-related fee income	112	96	330	265
Financially-related services income	102	92	210	190
Income earned on Insurance Fund assets	44	19	114	47
Gains (losses) on extinguishment of debt	3	4	(2)	2
Net losses on derivative, investment and other transactions	(14)	(18)	(7)	(41)
Other income	47	80	136	173
Total noninterest income	294	273	781	636
Noninterest expense				
Salaries and employee benefits	640	611	1,913	1,775
Occupancy and equipment expense	84	80	251	230
Purchased services	74	86	217	232
Other expense	269	222	768	643
Total noninterest expense	1,067	999	3,149	2,880
Income before income taxes	2,052	1,941	5,649	5,601
Provision for income taxes	51	59	142	152
Net income	<u>\$ 2,001</u>	<u>\$ 1,882</u>	<u>\$ 5,507</u>	<u>\$ 5,449</u>

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

FARM CREDIT SYSTEM
CONDENSED COMBINED STATEMENT OF COMPREHENSIVE INCOME
(in millions)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
	(unaudited)			
Net income	\$ 2,001	\$ 1,882	\$ 5,507	\$ 5,449
Other comprehensive loss, net of tax:				
Change in unrealized gains/losses on investments available-for-sale, including reclassification adjustments	(705)	(1,542)	(638)	(4,604)
Change in unrealized gains/losses on cash flow hedges, including reclassification adjustments	243	212	283	435
Change in net periodic pension benefit cost, including reclassification adjustments	25	26	77	80
Total other comprehensive loss	(437)	(1,304)	(278)	(4,089)
Comprehensive income	<u>\$ 1,564</u>	<u>\$ 578</u>	<u>\$ 5,229</u>	<u>\$ 1,360</u>

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

FARM CREDIT SYSTEM
CONDENSED COMBINED STATEMENT OF CHANGES IN CAPITAL
(in millions)

	For the Nine Months Ended September 30						
	Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-in- Capital	Restricted Capital Farm Credit Insurance Fund	Accumulated Other Comprehensive Loss, Net of Tax	Retained Earnings	Total Capital
	(unaudited)						
Balance at December 31, 2021	\$ 3,993	\$ 2,069	\$ 3,782	\$ 5,960	\$ (1,210)	\$ 54,883	\$ 69,477
Comprehensive income					(4,089)	5,449	1,360
Transfer of Insurance Fund premiums and other income from retained earnings to restricted capital				523		(523)	
Preferred stock issued by Banks	400						400
Preferred stock retired by Banks	(302)						(302)
Preferred stock retired by Associations	(275)						(275)
Preferred stock dividends						(153)	(153)
Capital stock and participation certificates issued		82					82
Capital stock and participation certificates retired		(116)					(116)
Equity issued or recharacterized upon Association mergers		5	751				756
Equity retired or recharacterized upon Association mergers		(5)				(793)	(798)
Patronage:							
Cash						(1,035)	(1,035)
Capital stock, participation certificates and retained earnings allocations		84				(84)	
Balance at September 30, 2022	<u>\$ 3,816</u>	<u>\$ 2,119</u>	<u>\$ 4,533</u>	<u>\$ 6,483</u>	<u>\$ (5,299)</u>	<u>\$ 57,744</u>	<u>\$ 69,396</u>
Balance at December 31, 2022	\$ 3,416	\$ 2,134	\$ 4,597	\$ 6,673	\$ (5,492)	\$ 57,273	\$ 68,601
Adjustment to beginning balance due to the change in accounting for credit losses					4	151	155
Balance at January 1, 2023	3,416	2,134	4,597	6,673	(5,488)	57,424	68,756
Comprehensive income					(278)	5,507	5,229
Transfer of Insurance Fund premiums and other income from retained earnings to restricted capital				576		(576)	
Preferred stock retired by Banks	(8)						(8)
Preferred stock issued by Associations	21						21
Preferred stock retired by Associations	(3)						(3)
Preferred stock dividends						(156)	(156)
Capital stock and participation certificates issued		69					69
Capital stock and participation certificates retired		(163)					(163)
Equity issued or recharacterized upon Association mergers		9	2,398				2,407
Equity retired or recharacterized upon Association mergers		(9)				(2,752)	(2,761)
Recharacterization of other comprehensive loss due to fair value adjustments related to the Association mergers					51		51
Patronage:							
Cash						(1,172)	(1,172)
Capital stock, participation certificates and retained earnings allocations		75				(75)	
Balance at September 30, 2023	<u>\$ 3,426</u>	<u>\$ 2,115</u>	<u>\$ 6,995</u>	<u>\$ 7,249</u>	<u>\$ (5,715)</u>	<u>\$ 58,200</u>	<u>\$ 72,270</u>

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

FARM CREDIT SYSTEM
CONDENSED COMBINED STATEMENT OF CASH FLOWS
(in millions)

	For the Nine Months Ended September 30,	
	2023	2022
	(unaudited)	
Cash flows from operating activities		
Net income	\$ 5,507	\$ 5,449
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses (credit loss reversal)	464	(9)
Depreciation and amortization on premises and equipment	144	131
Net losses on derivative, investment and other transactions	7	41
Increase in accrued interest receivable	(1,341)	(1,006)
Increase in accrued interest payable	847	686
Other, net	54	(192)
Net cash provided by operating activities	<u>5,682</u>	<u>5,100</u>
Cash flows from investing activities		
Increase in loans, net	(12,099)	(17,822)
Decrease (increase) in Federal funds sold and securities purchased under resale agreements, net	3,263	(8,000)
Investments available-for-sale:		
Purchases	(16,798)	(25,035)
Proceeds from maturities and payments	14,269	15,756
Proceeds from sales	548	1,403
Other investments held-to-maturity:		
Purchases	(2,017)	(866)
Proceeds from maturities and payments	431	353
Other investments available-for-sale:		
Purchases	(844)	(847)
Proceeds from maturities and payments	482	203
Proceeds from sales		47
Increase in investments held in the Insurance Fund, net	(645)	(460)
Other, net	(236)	(153)
Net cash used in investing activities	<u>(13,646)</u>	<u>(35,421)</u>
Cash flows from financing activities		
Systemwide bonds issued	120,546	107,562
Systemwide bonds and medium-term notes retired	(98,209)	(84,739)
Systemwide discount notes issued	84,134	190,153
Systemwide discount notes retired	(94,836)	(187,943)
Other bonds issued, net	1,947	4,006
(Decrease) increase in notes payable and other interest-bearing liabilities, net	(596)	506
(Decrease) increase in collateral held from derivative counterparties	(98)	573
Preferred stock issued by Banks		400
Preferred stock retired by Banks	(8)	(302)
Preferred stock issued by Associations	21	
Preferred stock retired by Associations	(3)	(275)
Capital stock and participation certificates issued	69	82
Capital stock, participation certificates and retained earnings retired	(195)	(146)
Preferred stock dividends paid	(147)	(141)
Cash patronage paid	(2,992)	(2,813)
Net cash provided by financing activities	<u>9,633</u>	<u>26,923</u>
Net increase (decrease) in cash	1,669	(3,398)
Cash at beginning of period	3,470	5,548
Cash at end of period	<u>\$ 5,139</u>	<u>\$ 2,150</u>

FARM CREDIT SYSTEM
CONDENSED COMBINED STATEMENT OF CASH FLOWS - (continued)
(in millions)

	For the Nine Months Ended September 30,	
	2023	2022
	(unaudited)	
Supplemental schedule of non-cash investing and financing activities:		
Loans transferred to other property owned	\$ 13	\$ 30
Patronage and dividends distributions payable	1,390	1,253
Investments available-for-sale sold (purchased) but not yet settled, net	139	(387)
Supplemental non-cash fair value changes related to hedging activities:		
Increase (decrease) in Systemwide bonds and medium-term notes	153	(744)
Other, net	56	702
Supplemental disclosure of cash flow information:		
Cash paid during the nine months for:		
Interest	9,732	2,677
Taxes	59	66

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

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS
(unaudited)
(dollars in millions, except as noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying Farm Credit System (System) condensed combined financial statements include financial information of: (1) three Farm Credit Banks (AgFirst Farm Credit Bank; AgriBank, FCB; and Farm Credit Bank of Texas) and their affiliated Associations, (2) one Agricultural Credit Bank (CoBank, ACB) and its affiliated Associations, (3) the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and (4) various service and other organizations. Substantially all Associations are structured as Agricultural Credit Associations (ACA) parent companies, with Federal Land Credit Associations (FLCA) and Production Credit Associations (PCA) subsidiaries. ACA parent companies provide financing and related services to customers through their FLCA and PCA subsidiaries. Generally, FLCAs make long-term loans secured by agricultural real estate or rural home loans. PCAs make short- and intermediate-term loans for agricultural production or operating purposes.

The accompanying unaudited condensed combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. Accordingly, these statements should be read in conjunction with the audited combined financial statements for the year ended December 31, 2022, contained in the System's *2022 Annual Information Statement*, as these statements do not include all of the disclosures required by GAAP for annual financial statements.

The accompanying condensed combined financial statements contain all normal, recurring adjustments necessary for a fair presentation of the interim financial condition and results of operation of the System. All significant intra-System transactions and balances have been eliminated in combination. Certain amounts in prior years' combined financial statements have been reclassified to conform to the current year presentation.

A more complete description of System institutions, the significant accounting policies followed by System entities, and the System's combined financial condition and combined results of operations as of and for the year ended December 31,

2022 are contained in the *2022 Annual Information Statement*.

Recently Adopted or Issued Accounting Pronouncements

On January 1, 2023, the System adopted the Financial Accounting Standards Board (FASB) guidance entitled "Measurement of Credit Losses on Financial Instruments" and other subsequently issued accounting standards updates related to credit losses. This guidance replaced the current incurred loss impairment methodology with a single allowance framework that estimates the current expected credit losses (CECL) over the remaining contractual life for all financial assets measured at amortized cost and certain off-balance sheet credit exposures. This guidance is applied on a modified retrospective basis. This framework requires management to consider in its estimate of the allowance for credit losses (ACL) relevant historical events, current conditions and reasonable and supportable forecasts that consider macroeconomic conditions. In addition, the guidance amends existing impairment guidance for held-to-maturity and available-for-sale investments to incorporate an allowance for credit losses related to these securities, which will allow for the reversal of credit impairments in the event that the credit of an issuer improves.

Also adopted, effective January 1, 2023, was the updated guidance entitled "Financial Instruments – Credit Losses: Troubled Debt Restructurings and Vintage Disclosure." This guidance requires the creditor to determine whether a modification results in a new loan or a continuation of an existing loan, among other disclosures specific to modifications with borrowers that are experiencing financial difficulties. The update eliminated the accounting guidance for troubled debt restructurings by creditors. The update also requires disclosure of current period gross write-offs by year of origination for financing receivables and net investments in leases on a prospective basis.

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
(unaudited)
(dollars in millions, except as noted)

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

	December 31, 2022	CECL Adoption Impact	January 1, 2023
Assets:			
Allowance for credit losses on loans	\$ (1,576)	\$ 132	\$ (1,444)
Deferred tax assets	9	(1)	8
Liabilities:			
Allowance for credit losses on unfunded commitments	222	(58)	164
Deferred tax liabilities	430	34	464
Capital:			
Accumulated other comprehensive loss, net of tax	(5,492)	4	(5,488)
Retained earnings	57,273	151	57,424

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

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

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

In March 2022, the FASB issued an update entitled "Derivatives and Hedging: Fair Value Hedging – Portfolio Layer Method." Under current guidance, the last-of-layer method enables an entity to apply fair value hedging to a stated amount of a closed portfolio of prepayable financial assets (or one or more beneficial interests secured by a portfolio of prepayable financial instruments) without having to consider prepayment risk or credit risk when measuring those assets. This guidance will allow entities to apply the portfolio layer method to portfolios of all financial assets, including both prepayable and nonprepayable financial assets. This scope expansion is consistent with the FASB's efforts to simplify hedge accounting and allows entities to apply the same method to similar hedging strategies. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. The adoption of this guidance did not impact the System's financial condition or results of operation as the System does not have a current derivative hedging strategy in which the last-of-layer method is used.

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
(unaudited)
(dollars in millions, except as noted)

Investments

The Banks and Associations, as permitted under Farm Credit Administration regulations, hold investments for the purposes of maintaining a liquidity reserve, managing short-term surplus funds, and managing interest rate risk. These investments are generally classified as available-for-sale and carried at fair value, and unrealized holding gains and losses are netted and reported as a separate component of capital. When an institution has the intent and ability to hold the investment to maturity, it is classified as held-to-maturity and carried at cost adjusted for the amortization of premiums and accretion of discounts. Regardless of the classification, premiums and discounts are amortized or accreted into interest income over the term of the respective issues. Neither the Banks nor the Associations hold investments for trading purposes.

The Banks and Associations may also hold additional investments in accordance with mission-related and other investment programs approved by the Farm Credit Administration. These programs allow the institution to make investments that further the mission to support rural America.

Gains and losses on the sales of available-for-sale investments are determined using the specific identification method.

Upon adoption of CECL guidance, the investments held-to-maturity are presented net of an allowance for credit losses on investments. The guidance also amended the previous other-than-temporary impairment (OTTI) model for investments available-for-sale to incorporate an allowance for credit losses.

Impairment may result from credit deterioration of the issuer or collateral underlying the security. In performing an assessment of whether any decline in fair value is due to a credit loss, all relevant information is considered at the individual security level. For mortgage-backed and asset-backed securities, performance indicators considered relate to the underlying assets, including default rates, delinquency rates, percentage of nonperforming assets, debt-to-collateral ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, analyst reports and forecasts, credit ratings and other market data.

With respect to certain classes of debt securities, primarily U.S. Treasuries and government guaranteed agency securities, management considers the history of credit losses, current conditions and reasonable and supportable forecasts, which may indicate that the expectation that nonpayment of the amortized cost basis is or continues to be zero, even if the U.S. government were to technically default. Therefore, for those securities, System institutions do not record expected credit losses.

Available-for-sale debt securities in unrealized loss positions are evaluated for impairment related to credit losses at least quarterly. For these securities, a decline in fair value due to estimated credit loss results in recording an allowance for credit losses to the extent the fair value is less than the amortized cost basis. The allowance is measured using market information where available and discounting the cash flows at the original effective rate of the investment security. The allowance is adjusted each period through earnings and can be subsequently recovered. Declines in fair value that have not been recorded through an allowance for credit losses, such as declines due to changes in market interest rates, are recorded through other comprehensive income, net of applicable taxes.

In assessing whether a credit loss exists for held-to-maturity investments, the present value of cash flows expected to be collected from the security is compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis for the security, a credit loss exists and an allowance for credit losses is recorded, limited to the amount the fair value is less than amortized cost basis.

If the intention is to sell a debt security or it is more likely than not to be required to sell the security before recovery of its amortized cost basis, the debt security is written down to its fair value and the write down is charged against the allowance for credit losses with any incremental impairment reported in earnings.

To the extent that debt securities in the held-to-maturity portfolio share common risk characteristics, estimated expected credit losses are calculated in a manner like that used for loans held for investment. That is, for pools of such securities with common risk characteristics, the historical lifetime probability of default and severity of loss in the event of default is

FARM CREDIT SYSTEM

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derived or obtained from external sources and adjusted for the expected effects of reasonable and supportable forecasts over the expected lives of the securities on those historical credit losses.

Expected credit loss on each security in the held-to-maturity portfolio that do not share common risk characteristics with any of the pools of debt securities is individually measured based on net realizable value, or the difference between the discounted value of the expected future cash flows, based on the original effective interest rate, and the recorded amortized cost basis of the security.

Loans and Allowance for Credit Losses

Loans

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

Nonaccrual Loans

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

Consistent with prior practice, loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection), circumstances indicate that collection of principal and interest is in doubt or legal action, including

foreclosure or other forms of collateral conveyance, has been initiated to collect the outstanding principal and interest. At the time a loan is placed in nonaccrual status, accrued interest that is considered uncollectible is reversed (if accrued in the current year) or charged against the allowance for credit losses on loans (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

When loans are in nonaccrual status, interest payments received in cash are generally recognized as interest income if the collectibility of the loan principal is fully expected and certain other criteria are met. Otherwise, payments received on nonaccrual loans are applied against the recorded investment in the loan asset. Nonaccrual loans are returned to accrual status if all contractual principal and interest is current, the borrower is fully expected to fulfill the contractual repayments terms and after remaining current as to principal and interest for a sustained period or have a recent repayment pattern demonstrating future repayment capacity to make on-time payments. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer should first be recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

Accrued Interest Receivable

System institutions elected to continue classifying accrued interest on loans and investment securities in accrued interest receivable and not as part of loans or investments on the Condensed Combined Statement of Condition. System institutions have also elected to not estimate an allowance on interest receivable balances because the nonaccrual policies in place provide for the accrual of interest to cease on a timely basis when all contractual amounts are not expected.

Loan Modifications to Borrowers Experiencing Financial Difficulty

Loan modifications may be granted to borrowers experiencing financial difficulty. Modifications can be in the form of one or a combination of principal forgiveness, interest rate reduction, other-than-insignificant payment delay or a term extension. Covenant waivers and modifications of contingent

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acceleration clauses are not considered term extensions.

Collateral Dependent Loans

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

Purchased Credit Deteriorated Loans (PCD)

The adoption of CECL resulted in a change in the accounting for purchased credit impaired loans, which are considered PCD loans under CECL. PCD loans are loans that were acquired that as of the date of acquisition have experienced a more-than-insignificant deterioration in credit quality since origination. Purchased loans are recorded at their fair value at the acquisition date. An allowance for credit losses 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 the entity is 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 on a level-yield basis. Any subsequent changes in expected credit losses are recorded through the income statement with a provision for credit losses.

Allowance for Credit Losses

Effective January 1, 2023, the ACL represents the estimated current expected credit losses over the

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

- the allowance for credit losses on loans (ACLL), which covers each Bank and Association's loan portfolio and is presented separately on the Condensed Combined Statement of Condition,
- the allowance for credit losses on unfunded commitments, which is presented on the Condensed Combined Statement of Condition in other liabilities, and
- the allowance for credit losses on investment securities, which covers held-to-maturity and available-for-sale securities and is recognized within each investment securities classification on the Condensed Combined Statement of Condition.

The System's ACL represents the aggregate of each System institution's individual evaluation of its allowance for credit losses requirements. Although aggregated in the combined financial statements, the ACL of each System institution is particular to that institution and is not available to absorb losses realized by other System entities.

ACLL

Determining the appropriateness of the ACLL is complex and requires judgment by management of the System institutions about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio may result in significant changes in the ACLL in those future periods. Loans are evaluated on the amortized cost basis, including premiums, discounts and fair value hedge accounting adjustments. System institutions may utilize a single economic scenario or multiple scenarios over a reasonable and supportable forecast period, generally between 12 and 36 months. Subsequent to the forecast period, System institutions revert to historical loss experience to inform the estimate of losses for the remaining contractual life of their loan portfolios.

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The economic forecasts are updated on a quarterly basis. These factors include, but are not limited to, macroeconomic variables such as unemployment rates, real gross domestic product levels and corporate bond spreads, as well as net farm income, agricultural commodity prices, loan and borrower characteristics, such as internal risk ratings, delinquency status, collateral type, and the remaining term of the loan, adjusted for expected prepayments. Each System institution also considers the imprecision inherent in their 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.

Each System institution employs a disciplined process and methodology to establish its ACLL that has two basic components: first, an asset-specific component involving individual loans that do not share risk characteristics with other loans and the measurement of expected credit losses for such individual loans; and second, a pooled component for estimated expected credit losses for pools of loans that share similar risk characteristics. 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 the System institution's appraisal policy, the fair value of collateral-dependent loans is based upon independent third-party appraisals or on collateral valuations prepared by in-house appraisers. When an updated appraisal or collateral valuation is received, management of the institution 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 shares common risk characteristics, loans are pooled and segregated into loan classes generally based on loan type, commodity, credit quality rating, delinquency category or business segment or a combination of these classes. At the System level, the loans are aggregated and classified by loan type. The models calculate 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 credit quality rating or delinquency buckets using historical life-of-loan analysis periods for loan types, and the severity of loss, based on the aggregate net lifetime losses incurred per loan class.

The components of the ACLL that share common risk characteristics also consider factors for each loan class to adjust for differences between the historical period used to calculate historical default and loss severity rates and expected conditions over the remaining lives of the loans in the portfolio related to:

- lending policies and procedures;
- national, regional and local economic business conditions and developments that affect the collectability of the portfolio, including the condition of various markets;
- the nature of the loan portfolio, including the terms of the loans;
- the experience, ability and depth of the lending management and other relevant staff;
- the volume and severity of past due and adversely classified or graded loans and the volume of nonaccrual loans;
- the quality of the loan review and process;
- the value of underlying collateral for collateral-dependent loans;
- the existence and effect of any concentrations of credit and changes in the level of such concentrations; and
- the effect of external factors such as competition and legal and regulatory requirements on the

FARM CREDIT SYSTEM
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level of estimated credit losses in the existing portfolio.

Prior to January 1, 2023, the allowance for loan losses was maintained at a level considered adequate to provide for probable losses existing in and inherent in each System institution's loan portfolio. The allowance was based on a periodic evaluation of the loan portfolio in which numerous factors were considered, including economic conditions, collateral values, borrowers' financial conditions, loan portfolio composition and prior loan loss experience. The allowance for loan losses encompassed various judgments, evaluations and appraisals with respect to the System's loans and their underlying collateral that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity would cause these various judgments, evaluations and appraisals to change over time. A number of factors were considered in determining and supporting the levels of System institutions' allowances for loan

losses, which included, but was not limited to, the System's concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

Allowance for Credit Losses on Unfunded Commitments

Banks and Associations evaluate the need for an allowance for credit losses on unfunded commitments under CECL and, if required, an amount is recognized and included in other liabilities on the Condensed Combined Statement of Condition. The amount of expected losses is determined by calculating a commitment usage factor over the contractual period for exposures that are not unconditionally cancellable by the institution and applying the loss factors used in the ACLL methodology to the results of the usage calculation. No allowance for credit losses is recorded for commitments that are unconditionally cancellable.

NOTE 2 — INVESTMENTS

Available-for-Sale

The following is a summary of available-for-sale investments held by the Banks for maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk:

	September 30, 2023				
	Amortized Cost ¹	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	\$ 10,994		\$ (40)	\$ 10,954	5.63%
U.S. Treasury securities	17,879	\$ 1	(844)	17,036	2.44
U.S. agency securities	2,342		(143)	2,199	3.22
Mortgage-backed securities	37,795	5	(3,661)	34,139	3.63
Asset-backed securities	6,455	5	(579)	5,881	3.83
Total	<u>\$ 75,465</u>	<u>\$ 11</u>	<u>\$ (5,267)</u>	<u>\$ 70,209</u>	3.66

¹ Amortized cost is presented net of applicable ACL

With the adoption of CECL on January 1, 2023, credit losses on investment securities are required to be recognized through the ACL, instead of a direct

write-down of the amortized cost basis of the security. The ACL for available-for-sale investments totaled \$4 million at September 30, 2023.

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	December 31, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities....	\$ 10,149	\$ 1	\$ (47)	\$ 10,103	4.63%
U.S. Treasury securities	21,630		(950)	20,680	1.75
U.S. agency securities	1,787		(107)	1,680	2.76
Mortgage-backed securities	34,855	9	(3,087)	31,777	2.70
Asset-backed securities	4,954	2	(452)	4,504	2.85
Total	<u>\$ 73,375</u>	<u>\$ 12</u>	<u>\$ (4,643)</u>	<u>\$ 68,744</u>	2.71

A summary of the fair value and amortized cost of investments available-for-sale at September 30, 2023 by contractual maturity is as follows:

	Due in 1 Year or Less		Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
Commercial paper, bankers' acceptances, certificates of deposit and other securities	\$10,327		\$ 539		\$ 88				\$10,954	5.63%
U.S. Treasury securities ..	6,568		8,627		1,841				17,036	2.44
U.S. agency securities	127		979		1,062		\$ 31		2,199	3.22
Mortgage-backed securities	335		3,926		15,246		14,632		34,139	3.63
Asset-backed securities ..	31		1,106		1,939		2,805		5,881	3.83
Total fair value	<u>\$17,388</u>	4.35%	<u>\$15,177</u>	2.96%	<u>\$20,176</u>	4.18%	<u>\$17,468</u>	3.00%	<u>\$70,209</u>	3.66
Total amortized cost	<u>\$17,506</u>		<u>\$16,075</u>		<u>\$21,640</u>		<u>\$20,244</u>		<u>\$75,465</u>	

A large portion of mortgage-backed securities have contractual maturities in excess of ten years. However, expected and actual maturities for mortgage-backed securities will typically be shorter

than contractual maturities because borrowers generally have the right to prepay the underlying mortgage obligations with or without prepayment penalties.

Other Investments Held-to-Maturity

The Banks and Associations may hold other investments for managing risk. The following is a summary of other investments held-to-maturity:

	September 30, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Mortgage-backed securities	\$ 2,465	\$ 18	\$ (99)	\$ 2,384	5.17%
Asset-backed securities	1,932	12	(32)	1,912	5.80
Other securities	31		(2)	29	6.25
Total	<u>\$ 4,428</u>	<u>\$ 30</u>	<u>\$ (133)</u>	<u>\$ 4,325</u>	5.45

FARM CREDIT SYSTEM
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	December 31, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Mortgage-backed securities.....	\$ 1,708	\$ 1	\$ (141)	\$ 1,568	2.24%
Asset-backed securities.....	1,143	1	(63)	1,081	2.24
Other securities.....	37		(2)	35	6.29
Total.....	<u>\$ 2,888</u>	<u>\$ 2</u>	<u>\$ (206)</u>	<u>\$ 2,684</u>	2.29

A summary of the fair value and amortized cost of other investments held-to-maturity at September 30, 2023 by contractual maturity is as follows:

	Due in 1 Year or Less		Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
Mortgage-backed securities.....			\$ 32		\$ 19		\$ 2,414		\$ 2,465	5.17%
Asset-backed securities.....			13		1,049		870		1,932	5.80
Other securities.....	\$ 2		2				27		31	6.25
Total amortized cost.....	<u>\$ 2</u>	6.17%	<u>\$ 47</u>	5.98%	<u>\$ 1,068</u>	5.76%	<u>\$ 3,311</u>	5.34%	<u>\$ 4,428</u>	5.45
Total fair value.....	<u>\$ 2</u>		<u>\$ 47</u>		<u>\$ 1,055</u>		<u>\$ 3,221</u>		<u>\$ 4,325</u>	

Other Investments Available-for-Sale

The following is a summary of other investments available-for-sale:

	September 30, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
U.S. Treasury securities.....	\$ 1,818		\$ (69)	\$ 1,749	2.63%
Mortgage-backed securities.....	142		(23)	119	2.75
Asset-backed securities.....	180	\$ 1		181	7.97
Other securities.....	20		(3)	17	5.73
Total.....	<u>\$ 2,160</u>	<u>\$ 1</u>	<u>\$ (95)</u>	<u>\$ 2,066</u>	3.13

	December 31, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
U.S. Treasury securities.....	\$ 1,534		\$ (85)	\$ 1,449	2.07%
Mortgage-backed securities.....	156		(18)	138	2.83
Asset-backed securities.....	129			129	5.92
Other securities.....	28		(3)	25	5.56
Total.....	<u>\$ 1,847</u>	<u>\$ 0</u>	<u>\$ (106)</u>	<u>\$ 1,741</u>	2.47

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A summary of the fair value and amortized cost of other investments available-for-sale at September 30, 2023 by contractual maturity is as follows:

	Due in 1 Year or Less		Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Treasury securities	\$ 299		\$ 940		\$ 510				\$ 1,749	2.63%
Mortgage-backed securities			9				\$ 110		119	2.75
Asset-backed securities			4		38		139		181	7.97
Other securities			8				9		17	5.73
Total fair value	<u>\$ 299</u>	1.82%	<u>\$ 961</u>	2.44%	<u>\$ 548</u>	3.99%	<u>\$ 258</u>	5.41%	<u>\$ 2,066</u>	3.13
Total amortized cost	<u>\$ 303</u>		<u>\$ 1,005</u>		<u>\$ 570</u>		<u>\$ 282</u>		<u>\$ 2,160</u>	

Impaired Investments Evaluation

The following tables show the gross unrealized losses and fair value of the System's available-for-sale investment securities that have been in a continuous unrealized loss position. An investment is considered

impaired if its fair value is less than its cost. The continuous loss position is based on the date the impairment was first identified.

	Less Than 12 Months		12 Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2023				
Commercial paper, bankers' acceptances, certificates of deposit and other securities	\$ 8,520	\$ (3)	\$ 595	\$ (40)
U.S. Treasury securities	3,945	(84)	13,115	(829)
U.S. agency securities	717	(23)	1,425	(120)
Mortgage-backed securities	7,238	(185)	25,630	(3,499)
Asset-backed securities	2,205	(35)	2,892	(544)
Total	<u>\$ 22,625</u>	<u>\$ (330)</u>	<u>\$ 43,657</u>	<u>\$ (5,032)</u>

	Less Than 12 Months		12 Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2022¹				
Commercial paper, bankers' acceptances, certificates of deposit and other securities	\$ 6,794	\$ (45)	\$ 60	\$ (7)
U.S. Treasury securities	10,120	(338)	10,445	(697)
U.S. agency securities	1,553	(97)	127	(10)
Mortgage-backed securities	20,737	(1,144)	11,233	(2,102)
Asset-backed securities	3,710	(254)	1,351	(261)
Total	<u>\$ 42,914</u>	<u>\$ (1,878)</u>	<u>\$ 23,216</u>	<u>\$ (3,077)</u>

¹ Prior to the adoption of CECL guidance, the impaired investments evaluation also included other investments held-to-maturity.

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The Banks and Associations evaluate investment securities with unrealized losses for impairment on a quarterly basis. As part of the assessment, the Banks and Associations evaluated and concluded that they do not intend to sell the security or it is more likely than not that they would be required to sell the security, prior to recovery of the amortized cost basis. The Banks and Associations also evaluate whether credit impairment exists by comparing the present value of the expected cash flows to the securities amortized cost basis. Credit impairment, if any, is recorded as an ACL for debt securities. At September 30, 2023, U.S. Treasury and agency, and all (or substantially all) mortgage-backed securities had a zero loss assumption and Banks and Associations do not consider these unrealized losses to be credit-related and an allowance for credit losses is not necessary.

For information on the evaluation of investment securities prior to the adoption of CECL, see Note 2 of the *2022 Annual Information Statement*. The guidance, prior to the adoption of CECL, for other-than-temporary impairment contemplated numerous factors in determining whether an impairment is other-than-temporary including: (1) whether or not an entity intends to sell the security, (2) whether it is more likely than not that an entity would be required to sell the security before recovering its costs, or (3) whether

or not an entity expects to recover the security's entire amortized cost basis (even if it does not intend to sell).

Pre-CECL, System institutions performed an evaluation quarterly on a security-by-security basis considering all available information. If a Bank or Association intended to sell the security or it was more likely than not that it would be required to sell the security, the impairment loss equaled the full difference between amortized cost and fair value of the security. When a Bank or Association did not intend to sell securities in an unrealized loss position, other-than-temporary impairment was considered using various factors, including the length of time and the extent to which the fair value was less than cost, adverse conditions specifically related to the industry, geographic area and the condition of the underlying collateral, payment structure of the security, ratings by rating agencies and volatility of the fair value changes. A Bank or Association used estimated cash flows over the remaining lives of the underlying collateral to assess whether credit losses exist. In estimating cash flows, it considered factors such as expectations of relevant market and economic data, including underlying loan level data for mortgage-backed and asset-backed securities and credit enhancements. The System did not recognize any credit impairment losses in earnings during the first nine months of 2022.

NOTE 3 — LOANS

The System is limited by statute to providing credit and related services to farmers, ranchers, producers and harvesters of aquatic products, rural homeowners, certain farm-related businesses, agricultural and aquatic cooperatives (or to other entities for the benefit of the cooperatives) and their customers, rural utilities and other eligible borrowers, and entities engaging in certain agricultural export finance transactions.

Loans outstanding consisted of the following:

	<u>September 30,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
Real estate mortgage	\$ 174,916	\$ 172,806
Production and intermediate-term*	73,853	70,573
Agribusiness	67,489	67,496
Rural infrastructure	51,730	44,215
Rural residential real estate	7,156	7,043
Other**	10,001	11,133
Total loans	<u>\$ 385,145</u>	<u>\$ 373,266</u>

* Includes lease receivables.

** Includes agricultural export finance loans and loans to other financing institutions.

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Credit Quality

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

System institutions use a two-dimensional loan risk rating model based on internally generated combined System risk rating guidance that incorporates a 14-point probability of default rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating and is generally based on internal historical data. A default is considered to

have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's opinion as to the anticipated principal loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses and risks in a particular relationship. System institutions review, at least on an annual basis, or when a credit action is taken, the probability of default category.

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

These categories are defined as follows:

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

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
(unaudited)
(dollars in millions, except as noted)

The following table presents credit quality indicators by loan type at September 30, 2023:

	<u>Term Loans at Amortized Cost by Origination Year</u>						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans	Total
	2023	2022	2021	2020	2019	Prior			
Real estate mortgage									
Acceptable	\$ 14,216	\$ 25,486	\$ 32,778	\$ 26,478	\$ 13,425	\$ 51,917	\$ 4,080	\$ 429	\$ 168,809
OAEM	172	340	348	465	269	1,331	167	32	3,124
Substandard/doubtful	57	404	336	360	448	1,125	216	37	2,983
Total	\$ 14,445	\$ 26,230	\$ 33,462	\$ 27,303	\$ 14,142	\$ 54,373	\$ 4,463	\$ 498	\$ 174,916
Gross charge-offs					\$ 1	\$ 3			\$ 4
Production and intermediate-term									
Acceptable	\$ 9,901	\$ 10,429	\$ 6,238	\$ 4,222	\$ 2,410	\$ 4,493	\$ 31,602	\$ 257	\$ 69,552
OAEM	412	265	136	86	126	94	1,033	12	2,164
Substandard/doubtful	382	343	122	130	263	107	702	88	2,137
Total	\$ 10,695	\$ 11,037	\$ 6,496	\$ 4,438	\$ 2,799	\$ 4,694	\$ 33,337	\$ 357	\$ 73,853
Gross charge-offs	\$ 2	\$ 18	\$ 2	\$ 1	\$ 10	\$ 5	\$ 12		\$ 50
Agribusiness									
Acceptable	\$ 7,478	\$ 12,436	\$ 8,808	\$ 4,828	\$ 3,245	\$ 8,138	\$ 18,535	\$ 328	\$ 63,796
OAEM	86	416	363	164	100	114	573	24	1,840
Substandard/doubtful	117	82	223	369	58	318	674	12	1,853
Total	\$ 7,681	\$ 12,934	\$ 9,394	\$ 5,361	\$ 3,403	\$ 8,570	\$ 19,782	\$ 364	\$ 67,489
Gross charge-offs	\$ 3	\$ 6	\$ 2	\$ 62		\$ 7	\$ 11	\$ 2	\$ 93
Rural infrastructure									
Acceptable	\$ 8,062	\$ 10,372	\$ 6,669	\$ 5,582	\$ 2,976	\$ 12,825	\$ 3,938	\$ 51	\$ 50,475
OAEM	20	271	99	258	13	447	14		1,122
Substandard/doubtful	11	59			14	37	12		133
Total	\$ 8,093	\$ 10,702	\$ 6,768	\$ 5,840	\$ 3,003	\$ 13,309	\$ 3,964	\$ 51	\$ 51,730
Gross charge-offs	\$ 4				\$ 2	\$ 1			\$ 7
Rural residential real estate									
Acceptable	\$ 592	\$ 1,143	\$ 1,186	\$ 818	\$ 506	\$ 2,792	\$ 36		\$ 7,073
OAEM	1	2	2	1	1	16	1		24
Substandard/doubtful		2	5	3	4	45			59
Total	\$ 593	\$ 1,147	\$ 1,193	\$ 822	\$ 511	\$ 2,853	\$ 37	\$ 0	\$ 7,156
Gross charge-offs									\$ 0
Other									
Acceptable	\$ 1,156	\$ 527	\$ 253	\$ 163	\$ 44	\$ 165	\$ 7,677	\$ 16	\$ 10,001
OAEM									
Substandard/doubtful									
Total	\$ 1,156	\$ 527	\$ 253	\$ 163	\$ 44	\$ 165	\$ 7,677	\$ 16	\$ 10,001
Gross charge-offs									\$ 0
Total Loans									
Acceptable	\$ 41,405	\$ 60,393	\$ 55,932	\$ 42,091	\$ 22,606	\$ 80,330	\$ 65,868	\$ 1,081	\$ 369,706
OAEM	691	1,294	948	974	509	2,002	1,788	68	8,274
Substandard/doubtful	567	890	686	862	787	1,632	1,604	137	7,165
Total	\$ 42,663	\$ 62,577	\$ 57,566	\$ 43,927	\$ 23,902	\$ 83,964	\$ 69,260	\$ 1,286	\$ 385,145
Gross charge-offs	\$ 9	\$ 24	\$ 4	\$ 63	\$ 13	\$ 16	\$ 23	\$ 2	\$ 154

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
(unaudited)
(dollars in millions, except as noted)

The following table shows loans, including accrued interest, under the Farm Credit Administration Uniform Loan Classification System as of December 31, 2022, prior to the adoption of CECL:

	Real estate mortgage	Production and intermediate- term	Agribusiness	Rural infrastructure	Rural residential real estate	Other	Total loans
Acceptable.....	\$ 169,637	\$ 68,139	\$ 64,425	\$ 43,956	\$ 6,975	\$ 11,196	\$ 364,328
OAEM.....	2,684	1,643	1,480	298	29		6,134
Substandard/doubtful.....	2,381	1,565	1,955	135	61		6,097
Total.....	<u>\$ 174,702</u>	<u>\$ 71,347</u>	<u>\$ 67,860</u>	<u>\$ 44,389</u>	<u>\$ 7,065</u>	<u>\$ 11,196</u>	<u>\$ 376,559</u>

The following table reflects nonperforming assets (which consist of nonaccrual loans, accruing loans 90 days or more past due and other property owned):

	September 30, 2023	December 31, 2022 ¹
Nonaccrual loans:		
Real estate mortgage.....	\$ 756	\$ 518
Production and intermediate-term.....	686	354
Agribusiness.....	271	334
Rural infrastructure.....	62	28
Rural residential real estate.....	34	32
Total nonaccrual loans.....	<u>1,809</u>	<u>1,266</u>
Accruing restructured loans:		
Real estate mortgage.....		149
Production and intermediate-term.....		44
Agribusiness.....		41
Rural residential real estate.....		31
Total accruing restructured loans.....	<u>0</u>	<u>265</u>
Accruing loans 90 days or more past due:		
Real estate mortgage.....	98	165
Production and intermediate-term.....	84	19
Agribusiness.....	8	10
Rural infrastructure.....	17	
Rural residential real estate.....		2
Total accruing loans 90 days or more past due.....	<u>207</u>	<u>196</u>
Total nonperforming loans.....	2,016	1,727
Other property owned.....	26	28
Total nonperforming assets.....	<u>\$ 2,042</u>	<u>\$ 1,755</u>

¹Prior to the adoption of CECL on January 1, 2023, nonperforming assets included accruing restructured loans and were presented with accrued interest.

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
(unaudited)
(dollars in millions, except as noted)

The following table reflects certain related credit quality statistics:

	September 30, 2023	December 31, 2022
Nonaccrual loans as a percentage of total loans.....	0.47%	0.34%
Nonperforming assets as a percentage of total loans and other property owned.....	0.53	0.47
Nonperforming assets as a percentage of capital.....	2.83	2.56

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

	September 30, 2023			Interest Income Recognized	
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	For the Three Months Ended September 30, 2023	For the Nine Months Ended September 30, 2023
Nonaccrual loans:					
Real estate mortgage.....	\$ 86	\$ 670	\$ 756	\$ 11	\$ 34
Production and intermediate-term.....	502	184	686	7	23
Agribusiness.....	193	78	271	3	6
Rural infrastructure.....	62		62		
Rural residential real estate.....	3	31	34		1
Total nonaccrual loans.....	<u>\$ 846</u>	<u>\$ 963</u>	<u>\$ 1,809</u>	<u>\$ 21</u>	<u>\$ 64</u>

Accrued interest receivable on loans of \$4.545 billion at September 30, 2023 and \$3.293 billion at December 31, 2022 have been excluded from the amortized cost of loans and reported separately in the Condensed Combined Statement of Condition. The

System wrote-off accrued interest receivable of \$3 million and \$16 million during the three and nine months ended September 30, 2023 by reversing interest income.

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
(unaudited)
(dollars in millions, except as noted)

The following table provides an aging analysis of past due loans at amortized cost by portfolio segment:

	September 30, 2023					
	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 753	\$ 381	\$ 1,134	\$ 173,782	\$ 174,916	\$ 98
Production and intermediate-term ...	306	346	652	73,201	73,853	84
Agribusiness	130	126	256	67,233	67,489	8
Rural infrastructure	3	30	33	51,697	51,730	17
Rural residential real estate	68	12	80	7,076	7,156	
Other				10,001	10,001	
Total	\$ 1,260	\$ 895	\$ 2,155	\$ 382,990	\$ 385,145	\$ 207

The following table provides an aging analysis of past due loans (including accrued interest) by portfolio segment:

	December 31, 2022					
	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 503	\$ 303	\$ 806	\$ 173,896	\$ 174,702	\$ 165
Production and intermediate-term ...	279	149	428	70,919	71,347	19
Agribusiness	118	57	175	67,685	67,860	10
Rural infrastructure	47		47	44,342	44,389	
Rural residential real estate	62	14	76	6,989	7,065	2
Other				11,196	11,196	
Total	\$ 1,009	\$ 523	\$ 1,532	\$ 375,027	\$ 376,559	\$ 196

As part of the mergers of Associations on January 1, 2023, the acquiring Associations purchased assets at acquisition for which there was evidence of more than insignificant deterioration in credit

quality since origination. The carrying amount of the PCD loans acquired by the Associations were as follows:

	January 1, 2023
Purchase price of loans at acquisition	\$ 410
Allowance for credit losses at acquisition	19
Non-credit discount at acquisition	42
Par value of acquired loans at acquisition	\$ 471

No PCD loans were acquired as part of the mergers of Associations that occurred on April 1,

2023. For additional information on mergers see Note 8.

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)

(unaudited)

(dollars in millions, except as noted)

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

For the Three Months Ended September 30, 2023

	Interest Rate Reduction	Term Extension	Payment Extension	Combination - Interest Rate Reduction and Term Extension	Combination - Interest Rate Reduction and Payment Extension	Combination - Term Extension and Payment Extension	Total	Percentage of Total by Loan Type
Real estate mortgage.....	\$ 22	\$ 5	\$ 31				\$ 58	0.03%
Production and intermediate-term.....	1	85	3	\$ 14		\$ 2	105	0.14
Agribusiness ..	15	125	47	28		10	225	0.33
Rural infrastructure ..		18					18	0.03
Rural residential real estate.....		3					3	0.04
Total.....	\$ 38	\$ 236	\$ 81	\$ 42	\$ 0	\$ 12	\$ 409	0.11

For the Nine Months Ended September 30, 2023

	Interest Rate Reduction	Term Extension	Payment Extension	Combination - Interest Rate Reduction and Term Extension	Combination - Interest Rate Reduction and Payment Extension	Combination - Term Extension and Payment Extension	Total	Percentage of Total by Loan Type
Real estate mortgage.....	\$ 47	\$ 37	\$ 92		\$ 17	\$ 3	\$ 196	0.11%
Production and intermediate-term.....	13	252	29	\$ 17		15	326	0.44
Agribusiness ..	15	220	56	53		10	354	0.52
Rural infrastructure ..		18	10				28	0.05
Rural residential real estate.....		6					6	0.08
Total.....	\$ 75	\$ 533	\$ 187	\$ 70	\$ 17	\$ 28	\$ 910	0.24

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
(unaudited)
(dollars in millions, except as noted)

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

	Interest Rate Reduction
	Financial Effect
Real estate mortgage	Reduced weighted average contractual interest rate from 11.50% to 9.24%
Production and intermediate-term	Reduced weighted average contractual interest rate from 13.16% to 8.28%
Agribusiness	Reduced weighted average contractual interest rate from 8.01% to 6.81%
	Term Extension
	Financial Effect
Real estate mortgage	Added a weighted average 2.8 years to the life of loans
Production and intermediate-term	Added a weighted average 10.3 months to the life of loans
Agribusiness	Added a weighted average 2.7 years to the life of loans
Rural infrastructure	Added a weighted average 8.0 months to the life of loans
Rural residential real estate	Added a weighted average 8.2 years to the life of loans
	Payment Extension
	Financial Effect
Real estate mortgage	Provided a weighted average 2.7 years of payment deferrals
Production and intermediate-term	Provided a weighted average 1.4 years of payment deferrals
Agribusiness	Provided a weighted average 1.8 years of payment deferrals
	Combination - Interest Rate Reduction and Term Extension
	Financial Effect
Production and intermediate-term	Reduced weighted average contractual interest rate from 9.10% to 8.61% and added a weighted average 2.3 years to the life of loans
Agribusiness	Reduced weighted average contractual interest rate from 4.10% to 3.31% and added a weighted average 1.1 years to the life of loans
	Combination - Term Extension and Payment Extension
	Financial Effect
Production and intermediate-term	Added a weighted average 1.2 years to the life of loans and provided a weighted average 9.4 months of payment deferrals
Agribusiness	Added a weighted average 1.5 months to the life of loans and provided a weighted average 1.5 months of payment deferrals

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
(unaudited)
(dollars in millions, except as noted)

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

Interest Rate Reduction	
Financial Effect	
Real estate mortgage	Reduced weighted average contractual interest rate from 11.00% to 7.67%
Production and intermediate-term	Reduced weighted average contractual interest rate from 9.33% to 7.61%
Agribusiness	Reduced weighted average contractual interest rate from 8.01% to 6.81%
Term Extension	
Financial Effect	
Real estate mortgage	Added a weighted average 1.9 years to the life of loans
Production and intermediate-term	Added a weighted average 11.4 months to the life of loans
Agribusiness	Added a weighted average 1.2 years to the life of loans
Rural infrastructure	Added a weighted average 8.0 months to the life of loans
Rural residential real estate	Added a weighted average 8.1 years to the life of loans
Payment Extension	
Financial Effect	
Real estate mortgage	Provided a weighted average 3.2 years of payment deferrals
Production and intermediate-term	Provided a weighted average 1.8 years of payment deferrals
Agribusiness	Provided a weighted average 1.5 years of payment deferrals
Rural infrastructure	Provided a weighted average 1.0 year of payment deferrals
Combination - Interest Rate Reduction and Term Extension	
Financial Effect	
Production and intermediate-term	Reduced weighted average contractual interest rate from 8.48% to 8.01% and added a weighted average 2.5 years to the life of loans
Agribusiness	Reduced weighted average contractual interest rate from 6.11% to 5.53% and added a weighted average 11.5 months to the life of loans
Combination - Interest Rate Reduction and Payment Extension	
Financial Effect	
Real estate mortgage	Reduced weighted average contractual interest rate from 12.90% to 7.95% and added a weighted average 11.4 months of payment deferrals
Combination - Term Extension and Payment Extension	
Financial Effect	
Real estate mortgage	Added a weighted average 8.4 months to the life of loans and provided a weighted average 1.5 years of payment deferrals
Production and intermediate-term	Added a weighted average 11.3 months to the life of loans and provided a weighted average 8.9 months of payment deferrals
Agribusiness	Added a weighted average 1.5 months to the life of loans and provided a weighted average 1.5 months of payment deferrals

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
(unaudited)
(dollars in millions, except as noted)

The following tables set forth the amortized cost of loans to borrowers experiencing financial difficulty that received a modification on or after January 1, 2023, the date of adoption of CECL, through September 30, 2023 and that defaulted in the periods presented:

Modified Loans that Subsequently Defaulted				
For the Three Months Ended September 30, 2023				
	Interest Rate Reduction	Term Extension	Payment Extension	Combination - Interest Rate Reduction and Payment Extension
Production and intermediate-term		\$ 1		
Rural residential real estate		1		
Total	\$ 0	\$ 2	\$ 0	\$ 0

Modified Loans that Subsequently Defaulted				
For the Nine Months Ended September 30, 2023				
	Interest Rate Reduction	Term Extension	Payment Extension	Combination - Interest Rate Reduction and Payment Extension
Real estate mortgage	\$ 2		\$ 7	\$ 10
Production and intermediate-term		\$ 10	10	
Rural residential real estate		1		
Total	\$ 2	\$ 11	\$ 17	\$ 10

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

Payment Status of Loans Modified in the Past Nine Months				
	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Real estate mortgage	\$ 181	\$ 2	\$ 13	\$ 196
Production and intermediate-term	299	5	22	326
Agribusiness	348		6	354
Rural infrastructure	28			28
Rural residential real estate	5	1		6
Total	\$ 861	\$ 8	\$ 41	\$ 910

Accrued interest receivable at the end of reporting period related to loan modifications granted to borrowers experiencing financial difficulty during the three and nine months ended September 30, 2023

was \$7 and \$19 million. Additional commitments to lend to borrowers experiencing financial difficulties whose loans have been modified were \$320 million at September 30, 2023.

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
(unaudited)
(dollars in millions, except as noted)

Loans held for sale were \$31 million and \$7 million at September 30, 2023 and December 31,

2022. Such loans are included in other assets and are carried at the lower of cost or fair value.

Credit Quality - Prior to CECL Adoption

The following disclosures are no longer relevant or comparable to the current period disclosures due to a change in accounting methodology on January 1, 2023:

	December 31, 2022		
	Recorded Investment ¹	Unpaid Principal Balance ²	Related Allowance
Impaired loans with a related allowance for loan losses:			
Real estate mortgage	\$ 60	\$ 67	\$ 14
Production and intermediate-term	166	181	56
Agribusiness	286	296	72
Rural infrastructure	28	30	6
Rural residential real estate	29	28	1
Total	<u>569</u>	<u>602</u>	<u>149</u>
Impaired loans with no related allowance for loan losses:			
Real estate mortgage	772	860	
Production and intermediate-term	251	361	
Agribusiness	99	128	
Rural infrastructure		2	
Rural residential real estate	36	41	
Total	<u>1,158</u>	<u>1,392</u>	
Total impaired loans:			
Real estate mortgage	832	927	14
Production and intermediate-term	417	542	56
Agribusiness	385	424	72
Rural infrastructure	28	32	6
Rural residential real estate	65	69	1
Total	<u>\$ 1,727</u>	<u>\$ 1,994</u>	<u>\$ 149</u>

¹The recorded investment is the face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

²Unpaid principal balance represents the contractual principal balance of the loan.

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)

(unaudited)

(dollars in millions, except as noted)

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2022		September 30, 2022	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:				
Real estate mortgage	\$ 88	\$ 1	\$ 90	\$ 2
Production and intermediate-term	139	1	132	2
Agribusiness	163		107	
Rural infrastructure	82		87	
Rural residential real estate	26		25	
Total	<u>498</u>	<u>2</u>	<u>441</u>	<u>4</u>
Impaired loans with no related allowance for loan losses:				
Real estate mortgage	856	17	815	44
Production and intermediate-term	306	4	266	21
Agribusiness	67	1	70	3
Rural infrastructure	3		8	
Rural residential real estate	38	1	38	3
Total	<u>1,270</u>	<u>23</u>	<u>1,197</u>	<u>71</u>
Total impaired loans:				
Real estate mortgage	944	18	905	46
Production and intermediate-term	445	5	398	23
Agribusiness	230	1	177	3
Rural infrastructure	85		95	
Rural residential real estate	64	1	63	3
Total	<u>\$ 1,768</u>	<u>\$ 25</u>	<u>\$ 1,638</u>	<u>\$ 75</u>

Troubled Debt Restructuring

Prior to the adoption of updated FASB guidance on loan modifications on January 1, 2023, a restructuring of a loan constituted a troubled debt restructuring, also known as formally restructured, if the creditor for economic or legal reasons related to the borrower's financial difficulties granted a concession to the borrower that it would not otherwise consider. Concessions varied by program and were

borrower-specific and could include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may have been forgiven. When a restructured loan constituted a troubled debt restructuring, these loans were included within our impaired loans under nonaccrual or accruing restructured loans.

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
(unaudited)
(dollars in millions, except as noted)

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

	For the Three Months Ended September 30, 2022		For the Nine Months Ended September 30, 2022	
	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:				
Real estate mortgage	\$ 13	\$ 13	\$ 33	\$ 33
Production and intermediate-term	4	4	38	38
Agribusiness			3	3
Rural residential real estate	4	5	14	16
Total	\$ 21	\$ 22	\$ 88	\$ 90

* Pre-modification represents the recorded investment just prior to restructuring and post-modification represents the recorded investment immediately following the restructuring. The recorded investment is the face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

The following table presents information regarding troubled debt restructurings that occurred within the previous 12 months and for which there was a payment default during the period:

	Recorded Investment September 30, 2022
Troubled debt restructurings that subsequently defaulted:	
Real estate mortgage	\$ 3
Production and intermediate-term	10
Rural residential real estate	7
Total	\$ 20

The following table provides information on outstanding loans restructured in troubled debt restructurings. These loans are included as impaired loans in the impaired loan table:

	December 31, 2022	
	Loans Modified as Troubled Debt Restructurings	Troubled Debt Restructurings in Nonaccrual Status*
Real estate mortgage	\$ 215	\$ 66
Production and intermediate-term	90	46
Agribusiness	45	4
Rural infrastructure	12	12
Rural residential real estate	37	6
Total	\$ 399	\$ 134

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

Additional commitments to lend to borrowers whose loans have been modified in troubled debt restructurings were \$14 million at December 31, 2022.

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
(unaudited)
(dollars in millions, except as noted)

NOTE 4 — ALLOWANCE FOR CREDIT LOSSES

A summary of changes in the ACL by portfolio segment is as follows:

	Real estate mortgage	Production and intermediate- term	Agribusiness	Rural infrastructure	Rural residential real estate	Other	Total
Allowance for Credit Losses on Loans:							
Balance at June 30, 2023	\$ 363	\$ 356	\$ 609	\$ 300	\$ 30	\$ 33	\$1,691
Charge-offs	(2)	(8)	(65)	(6)			(81)
Recoveries	3	2	4	1		1	11
Provision for credit losses (credit loss reversal)	6	63	(52)	31	(3)		45
Other	(1)	2	1				2
Balance at September 30, 2023	<u>\$ 369</u>	<u>\$ 415</u>	<u>\$ 497</u>	<u>\$ 326</u>	<u>\$ 27</u>	<u>\$ 34</u>	<u>\$1,668</u>
Balance at December 31, 2022	<u>\$ 342</u>	<u>\$ 419</u>	<u>\$ 574</u>	<u>\$ 196</u>	<u>\$ 14</u>	<u>\$ 31</u>	<u>\$1,576</u>
Adjustment to beginning balance due to the change in accounting for credit losses	8	(147)	(78)	61	16	8	(132)
Balance at January 1, 2023	350	272	496	257	30	39	1,444
Adjustment due to merger ¹	(13)	(43)	(18)	(1)			(75)
Charge-offs	(4)	(50)	(93)	(7)			(154)
Recoveries	4	11	7	1		1	24
Provision for credit losses (credit loss reversal)	33	223	104	76	(3)	(6)	427
Other	(1)	2	1				2
Balance at September 30, 2023	<u>\$ 369</u>	<u>\$ 415</u>	<u>\$ 497</u>	<u>\$ 326</u>	<u>\$ 27</u>	<u>\$ 34</u>	<u>\$1,668</u>
Allowance for Credit Losses on Unfunded Commitments:							
Balance at June 30, 2023	\$ 13	\$ 46	\$ 96	\$ 32		\$ 2	\$ 189
Provision for credit losses	1	5	8				14
Balance at September 30, 2023	<u>\$ 14</u>	<u>\$ 51</u>	<u>\$ 104</u>	<u>\$ 32</u>	<u>\$ 0</u>	<u>\$ 2</u>	<u>\$ 203</u>
Balance at December 31, 2022	<u>\$ 11</u>	<u>\$ 45</u>	<u>\$ 116</u>	<u>\$ 48</u>		<u>\$ 2</u>	<u>\$ 222</u>
Adjustment to beginning balance due to the change in accounting for credit losses		(11)	(28)	(18)		(1)	(58)
Balance at January 1, 2023	11	34	88	30		1	164
Provision for credit losses	3	17	16	2		1	39
Balance at September 30, 2023	<u>\$ 14</u>	<u>\$ 51</u>	<u>\$ 104</u>	<u>\$ 32</u>	<u>\$ 0</u>	<u>\$ 2</u>	<u>\$ 203</u>
Allowance for Credit Losses on Investments:							
Balance at June 30, 2023	N/A	N/A	N/A	N/A	N/A	N/A	\$ 6
Credit loss reversal	N/A	N/A	N/A	N/A	N/A	N/A	(2)
Balance at September 30, 2023	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>\$ 4</u>
Balance at December 31, 2022	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>\$ 0</u>
Adjustment to beginning balance due to the change in accounting for credit losses	N/A	N/A	N/A	N/A	N/A	N/A	6
Balance at January 1, 2023	N/A	N/A	N/A	N/A	N/A	N/A	6
Credit loss reversal	N/A	N/A	N/A	N/A	N/A	N/A	(2)
Balance at September 30, 2023	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>\$ 4</u>
Total Allowance for Credit Losses:							
Balance at September 30, 2023	<u>\$ 383</u>	<u>\$ 466</u>	<u>\$ 601</u>	<u>\$ 358</u>	<u>\$ 27</u>	<u>\$ 36</u>	<u>\$1,875</u>

¹Includes the initial allowance for credit losses on PCD loans of \$19 million.

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)

(unaudited)

(dollars in millions, except as noted)

Discussion of Changes in Allowance for Credit Losses

The ACL increased \$261 million to \$1.875 billion at September 30, 2023, as compared to \$1.614 billion at January 1, 2023. This is largely due to increases in specific reserves associated with a limited number of customers, credit quality deterioration within the rural infrastructure and agribusiness sectors and forecasts of deteriorating macroeconomic conditions.

The ACL takes into consideration relevant information about past events, current conditions and reasonable and supportable macroeconomic forecasts of future conditions. System institutions may utilize either a single economic scenario or multiple scenarios over their determined reasonable and supportable forecast period, generally between 12 and 36 months. All sources are from public published indices.

The following table discloses the most significant macroeconomic variables by loan type:

Portfolio Segment	Macroeconomic Variable
Real estate mortgage	Unemployment rates and Net Farm Income
Production and intermediate-term	Unemployment rates and Net Farm Income
Agribusiness	Unemployment rates, Net Farm Income and U.S. Real GDP
Rural infrastructure	Unemployment rates, Power: Electric Utility Retail Sales, (Bil. Kwh, NSA) and Net Farm Income
Rural residential real estate	Unemployment rates and Net Farm Income
Other	Unemployment rates and U.S Real GDP

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
(unaudited)
(dollars in millions, except as noted)

Allowance for Credit Losses - Prior to CECL Adoption

Prior to January 1, 2023, System institutions maintained the allowance for loan losses at a level considered adequate to provide for probable and

estimable losses inherent in the loan portfolios. See Note 2 of the *2022 Annual Information Statement* for a description of the accounting policy for the allowance for loan losses.

	Real estate mortgage	Production and intermediate- term	Agribusiness	Rural infrastructure	Rural residential real estate	Other	Total
Allowance for Credit Losses on Loans:							
Balance at June 30, 2022	\$ 375	\$ 397	\$ 608	\$ 191	\$ 14	\$ 29	\$ 1,614
Charge-offs	(1)	(6)		(1)	(1)		(9)
Recoveries	2	4	1		1		8
(Credit loss reversal) provision for credit losses	(15)	20	(27)	12			(10)
Adjustment due to merger	(4)	(6)	(5)	(2)			(17)
Reclassification (to) from reserve for unfunded commitments*	(5)	(7)	(30)	(4)			(46)
Balance at September 30, 2022	<u>\$ 352</u>	<u>\$ 402</u>	<u>\$ 547</u>	<u>\$ 196</u>	<u>\$ 14</u>	<u>\$ 29</u>	<u>\$ 1,540</u>
Balance at December 31, 2021	\$ 415	\$ 464	\$ 526	\$ 186	\$ 15	\$ 26	\$ 1,632
Charge-offs	(4)	(12)	(5)	(20)	(2)		(43)
Recoveries	4	19	2	1	1		27
(Credit loss reversal) provision for credit losses	(51)	(57)	62	34		3	(9)
Adjustment due to merger	(7)	(9)	(7)	(2)			(25)
Reclassification (to) from reserve for unfunded commitments*	(5)	(3)	(31)	(3)			(42)
Balance at September 30, 2022	<u>\$ 352</u>	<u>\$ 402</u>	<u>\$ 547</u>	<u>\$ 196</u>	<u>\$ 14</u>	<u>\$ 29</u>	<u>\$ 1,540</u>
Ending balance at December 31, 2022:							
Individually evaluated for impairment	\$ 14	\$ 56	\$ 72	\$ 6	\$ 1		\$ 149
Collectively evaluated for impairment	328	363	502	190	13	\$ 31	1,427
Balance at December 31, 2022	<u>\$ 342</u>	<u>\$ 419</u>	<u>\$ 574</u>	<u>\$ 196</u>	<u>\$ 14</u>	<u>\$ 31</u>	<u>\$ 1,576</u>
Recorded Investments in Loans Outstanding:							
Ending balance at December 31, 2022:							
Loans individually evaluated for impairment	\$ 931	\$ 400	\$ 377	\$ 28	\$ 568	\$ 146	\$ 2,450
Loans collectively evaluated for impairment	173,771	70,947	67,483	44,361	6,497	11,050	374,109
Balance at December 31, 2022	<u>\$174,702</u>	<u>\$ 71,347</u>	<u>\$ 67,860</u>	<u>\$ 44,389</u>	<u>\$ 7,065</u>	<u>\$11,196</u>	<u>\$376,559</u>

* Represents reclassifications between the allowance for credit losses on loans and the reserve for unfunded commitments as a result of advances on or repayments of seasonal lines of credit or other loans.

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
(unaudited)
(dollars in millions, except as noted)

NOTE 5 — OTHER ASSETS AND OTHER LIABILITIES

Other assets consisted of the following:

	September 30, 2023	December 31, 2022
Interest rate swaps and other derivatives	\$ 1,122	\$ 1,059
Equipment held for lease	694	665
Accounts receivable	461	573
Investments in rural business investment companies	436	347
Assets held in non-qualified benefits trusts	240	218
Prepaid expenses	143	118
Operating lease right-of-use assets	135	148
Equity investments in other System institutions	125	132
Loans held for sale	31	7
Other property owned	26	28
Net deferred tax assets	9	9
Other	229	210
Total	\$ 3,651	\$ 3,514

Other liabilities consisted of the following:

	September 30, 2023	December 31, 2022
Interest rate swaps and other derivatives	\$ 1,414	\$ 1,165
Patronage and dividends payable	1,194	2,943
Accounts payable	807	897
Pension and other postretirement benefit plan liabilities	652	693
Collateral held from derivative counterparties	469	567
Net deferred tax liabilities	469	430
Accrued salaries and employee benefits	401	483
Allowance for credit losses on unfunded commitments	203	222
Liabilities held in non-qualified benefit trusts	168	145
Operating lease liabilities	149	162
Bank drafts payable	99	130
Other	181	426
Total	\$ 6,206	\$ 8,263

NOTE 6 — FARM CREDIT INSURANCE FUND

The assets in the Insurance Fund are designated as restricted assets and the related capital is designated as restricted capital. The classification of the Insurance Fund as restricted assets (and as restricted capital) in the System's condensed combined financial statements is based on the statutory requirement that the amounts in the Insurance Fund are to be used solely for purposes specified in the Farm Credit Act of 1971, as amended (Farm Credit Act), all of which benefit the Banks and Associations. The Insurance Fund is under the direct control of the Farm Credit System Insurance Corporation (Insurance Corporation), an independent U.S. government-controlled corporation, and not under the control of any System institution. A board of directors consisting of the Farm Credit Administration Board directs the Insurance Corporation.

The System does not have a guaranteed line of credit from the U.S. Treasury or the Federal Reserve. However, the Insurance Corporation has an agreement with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction

of the U.S. Treasury, pursuant to which the Federal Financing Bank would advance funds to the Insurance Corporation under certain limited circumstances. Under its existing statutory authority, the Insurance Corporation may use these funds to provide assistance to the System Banks in exigent market circumstances that threaten the Banks' ability to pay maturing debt obligations. The agreement provides for advances of up to \$10 billion and will remain in full force and effect until terminated by either the Insurance Corporation or the Federal Financing Bank. The decision whether to seek funds from the Federal Financing Bank is at the discretion of the Insurance Corporation, and each funding obligation of the Federal Financing Bank is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by the System.

At September 30, 2023, assets in the Insurance Fund totaled \$7.249 billion and consisted of cash, investments and related accrued interest receivable of

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)

(unaudited)

(dollars in millions, except as noted)

\$6.784 billion and of premiums receivable from System institutions of \$465 million accrued on the basis of adjusted outstanding insured debt during the first nine months of 2023. Investments held by the Insurance Fund must be obligations of the United States or obligations guaranteed as to principal and

interest by the United States. During the first nine months of 2023, income earned on assets in the Insurance Fund and premiums accrued by the Insurance Corporation totaled \$576 million, net of administrative expenses.

NOTE 7 — SYSTEMWIDE DEBT SECURITIES

Aggregate maturities and the weighted average interest rate of Systemwide Debt Securities were as follows at September 30, 2023:

	Bonds		Medium-term notes		Discount notes		Total	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Due in 1 year or less	\$ 126,785	4.10%			\$ 16,738	4.98%	\$ 143,523	4.20%
Due after 1 year through 2 years	105,599	4.31					105,599	4.31
Due after 2 years through 3 years	33,863	3.02					33,863	3.02
Due after 3 years through 4 years	21,623	2.18					21,623	2.18
Due after 4 years through 5 years	20,722	3.01					20,722	3.01
Due after 5 years	76,463	2.82	\$ 61	5.75%			76,524	2.82
Total	<u>\$ 385,055</u>	3.64	<u>\$ 61</u>	5.75	<u>\$ 16,738</u>	4.98	<u>\$ 401,854</u>	3.70

NOTE 8 — MERGERS OF SYSTEM INSTITUTIONS

As discussed in the *2022 Annual Information Statement*, the primary reason for System entity mergers is based on a determination that the combined organization would be financially and operationally stronger with an enhanced ability to fulfill its mission.

On April 1, 2023, two Associations in the AgFirst District merged and two Associations in the AgriBank District also merged. In addition, on January 1, 2023, two Associations in the AgFirst District merged and two Associations in the CoBank District also merged.

The following table summarizes the fair values of the identifiable assets acquired and liabilities assumed as of:

	Fair Value		
	Total Assets Acquired	Total Liabilities Assumed	Net Assets Acquired
Merger Date			
April 1, 2023	\$ 3,904	\$ 3,156	\$ 748
January 1, 2023	15,371	13,024	2,347

The following table summarizes the loans acquired in the merger transactions:

	Loans Acquired at Fair Value	Loans Acquired at Contractual Amount	Gross Contractual Amount Not Expected to be Collected
	Merger Date		
April 1, 2023	\$ 3,724	\$ 4,257	\$ 0
January 1, 2023 ..	13,743	14,289	0

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
(unaudited)
(dollars in millions, except as noted)

NOTE 9 — CAPITAL STRUCTURE

Capital consisted of the following at September 30, 2023:

	<u>Combined Banks</u>	<u>Combined Associations</u>	<u>Combination Entries</u>	<u>System Combined</u>
Preferred stock.....	\$ 2,625	\$ 801		\$ 3,426
Capital stock and participation certificates.....	9,527	488	\$ (7,900)	2,115
Additional paid-in-capital.....	64	6,931		6,995
Restricted capital — Insurance Fund.....			7,249	7,249
Accumulated other comprehensive loss.....	(4,658)	(212)	(845)	(5,715)
Retained earnings.....	13,512	45,470	(782)	58,200
Total capital.....	<u>\$ 21,070</u>	<u>\$ 53,478</u>	<u>\$ (2,278)</u>	<u>\$ 72,270</u>

Preferred stock issued and outstanding reflects the issuance by three Banks and five Associations. Combined System retained earnings reflected net eliminations of \$782 million representing transactions between the Banks, the Associations and/or the Insurance Fund. Capital stock and participation certificates of the Banks amounting to \$7.9 billion were owned by the Associations. These amounts have been eliminated in the accompanying condensed combined financial statements. Restricted capital is only available for statutorily authorized purposes and is not available for payment of dividends or patronage distributions.

During the first quarter of 2023, CoBank purchased and retired \$8 million of its three-month LIBOR plus 1.18% non-cumulative perpetual preferred stock.

During the third quarter of 2022, CoBank issued \$400 million of non-cumulative perpetual preferred stock. Dividends on preferred stock, if declared by CoBank's board of directors in its sole discretion, are non-cumulative and are payable quarterly at a fixed annual rate of 6.45% until October 1, 2027, after which the dividend rate will reset every five years to a rate equal to the five year Treasury rate plus 3.487%. The preferred stock issuance is redeemable at par value, in whole or in part, at CoBank's option

beginning on October 1, 2027. Proceeds from this preferred stock issuance were used to increase regulatory capital and for general corporate purposes. Also during the third quarter of 2022, one Association redeemed \$20 million of its 5.00% cumulative perpetual preferred stock.

During the second quarter of 2022, AgFirst redeemed \$32 million of its three-month LIBOR plus 1.13% non-cumulative perpetual preferred stock. Also during the second quarter of 2022, one Association redeemed approximately \$247 million of its preferred stock.

During the first quarter of 2022, CoBank redeemed all outstanding shares of its \$200 million 6.125% non-cumulative perpetual preferred stock at par. In addition, CoBank purchased and retired \$70 million of its three-month LIBOR plus 1.18% non-cumulative perpetual preferred stock during the first nine months of 2022.

Preferred stock is the sole obligation of the issuing entity and is not guaranteed by any other System institution and is not considered a Systemwide Debt Security subject to the provisions of joint and several liability. Preferred stock is not guaranteed or insured by the Insurance Fund.

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
(unaudited)
(dollars in millions, except as noted)

Accumulated other comprehensive loss was comprised of the following components:

	September 30, 2023			December 31, 2022		
	Before Tax	Deferred Tax	Net of Tax	Before Tax	Deferred Tax	Net of Tax
Unrealized losses on investments available-for-sale, net	\$ (5,351)	\$ 222	\$ (5,129)	\$ (4,741)	\$ 198	\$ (4,543)
Unrealized gains on cash flow hedges, net	466	4	470	179	8	187
Pension and other benefit plans	(1,076)	20	(1,056)	(1,157)	21	(1,136)
Total	<u>\$ (5,961)</u>	<u>\$ 246</u>	<u>\$ (5,715)</u>	<u>\$ (5,719)</u>	<u>\$ 227</u>	<u>\$ (5,492)</u>

The following tables present the activity in the accumulated other comprehensive loss, net of tax by component for the three and nine months ended September 30, 2023 and 2022:

	Unrealized losses on investments available- for-sale, net	Unrealized gains on cash flow hedges, net	Pension and other benefit plans	Accumulated other comprehensive loss
Balance at June 30, 2023	\$ (4,424)	\$ 227	\$ (1,081)	\$ (5,278)
Other comprehensive (loss) income before reclassifications ..	(705)	254	(1)	(452)
Amounts reclassified from accumulated other comprehensive loss to income		(11)	26	15
Net current period other comprehensive (loss) income	(705)	243	25	(437)
Balance at September 30, 2023	<u>\$ (5,129)</u>	<u>\$ 470</u>	<u>\$ (1,056)</u>	<u>\$ (5,715)</u>

	Unrealized losses on investments available- for-sale, net	Unrealized gains/losses on cash flow hedges, net	Pension and other benefit plans	Accumulated other comprehensive loss
Balance at June 30, 2022	\$ (2,923)	\$ (9)	\$ (1,063)	\$ (3,995)
Other comprehensive (loss) income before reclassifications ..	(1,542)	200		(1,342)
Amounts reclassified from accumulated other comprehensive loss to income		12	26	38
Net current period other comprehensive (loss) income	(1,542)	212	26	(1,304)
Balance at September 30, 2022	<u>\$ (4,465)</u>	<u>\$ 203</u>	<u>\$ (1,037)</u>	<u>\$ (5,299)</u>

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
(unaudited)
(dollars in millions, except as noted)

	Unrealized losses on investments available-for- sale, net	Unrealized gains on cash flow hedges, net	Pension and other benefit plans	Accumulated other comprehensive loss
Balance at December 31, 2022	\$ (4,543)	\$ 187	\$ (1,136)	\$ (5,492)
Adjustment to beginning balance due to the change in accounting for credit losses	4			4
Balance at January 1, 2023	(4,539)	187	(1,136)	(5,488)
Other comprehensive (loss) income before reclassifications	(645)	302	1	(342)
Amounts reclassified from accumulated other comprehensive loss to income	7	(19)	76	64
Net current period other comprehensive (loss) income	(638)	283	77	(278)
Adjustment due to Association mergers	48		3	51
Balance at September 30, 2023	<u>\$ (5,129)</u>	<u>\$ 470</u>	<u>\$ (1,056)</u>	<u>\$ (5,715)</u>

	Unrealized gains/losses on investments available-for- sale, net	Unrealized gains/losses on cash flow hedges, net	Pension and other benefit plans	Accumulated other comprehensive loss
Balance at December 31, 2021	\$ 139	\$ (232)	\$ (1,117)	\$ (1,210)
Other comprehensive (loss) income before reclassifications	(4,607)	401	1	(4,205)
Amounts reclassified from accumulated other comprehensive loss to income	3	34	79	116
Net current period other comprehensive (loss) income	(4,604)	435	80	(4,089)
Balance at September 30, 2022	<u>\$ (4,465)</u>	<u>\$ 203</u>	<u>\$ (1,037)</u>	<u>\$ (5,299)</u>

Only the Banks are statutorily liable for the payment of principal and interest on Federal Farm Credit Banks Consolidated Systemwide Bonds, Federal Farm Credit Banks Consolidated Systemwide Discount Notes, Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes and other debt securities issued under Section 4.2(d) of the Farm Credit Act (collectively, Systemwide Debt Securities). Under each Bank's bylaws, the Bank is authorized under certain circumstances to require its affiliated Associations and certain other equity holders to purchase additional Bank equities. In most cases, the Banks are limited as to the amounts of these purchases that may be required, generally with reference to a percentage of the Association's or other equity holder's direct loan from the Bank, and calls for additional equity investments may be subject to other limits or conditions. However, the Banks also generally possess indirect access to certain financial resources of their affiliated Associations through loan-pricing provisions and through Bank-influenced District operating and financing policies and agreements.

Capital regulations issued by the System's regulator, the Farm Credit Administration, require that the Banks and Associations maintain regulatory minimums for the following capital ratios:

Ratio	Minimum Requirement	Minimum Requirement with Buffer
Common Equity		
Tier 1 Capital	4.5%	7.0%
Tier 1 Capital	6.0%	8.5%
Total Capital	8.0%	10.5%
Tier 1 Leverage*	4.0%	5.0%
Unallocated Retained Earnings (URE) and URE Equivalents (UREE) Leverage	1.5%	N/A
Permanent Capital	7.0%	N/A

* Must include the regulatory minimum requirement for the URE and UREE Leverage ratio.

At September 30, 2023, all System institutions complied with these standards.

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)

(unaudited)

(dollars in millions, except as noted)

NOTE 10 — EMPLOYEE BENEFIT PLANS

The Banks and substantially all Associations participate in defined benefit retirement plans. The Banks and Associations, except for CoBank and certain affiliated Associations, generally have governmental plans that cover many System institutions and as such cannot be attributed to any individual entity. Thus, these plans are generally recorded at the combined District level. Although these plans are aggregated in the System's combined financial statements, the plan assets are particular to each plan's obligations. These retirement plans are noncontributory and benefits are based on salary and years of service. The Banks and Associations have closed their defined benefit pension plans to new participants and offer defined contribution retirement plans to all employees hired subsequent to the close of their respective defined benefit pension plans. In addition, certain System institutions provide healthcare and other postretirement benefits to eligible retired employees. Employees of System institutions may become eligible for healthcare and other postretirement benefits if they reach normal retirement age while working for the System.

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

	Pension Benefits		Other Benefits	
	2023	2022	2023	2022
Service cost	\$ 11	\$ 15		\$ 1
Interest cost	45	30	\$ 4	2
Expected return on plan assets	(50)	(50)		
Net amortization and deferral	27	27	(1)	1
Net periodic benefit cost	\$ 33	\$ 22	\$ 3	\$ 4

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

	Pension Benefits		Other Benefits	
	2023	2022	2023	2022
Service cost	\$ 32	\$ 44	\$ 1	\$ 2
Interest cost	135	89	10	7
Expected return on plan assets	(151)	(150)		
Net amortization and deferral	82	83	(3)	1
Curtailments and settlements	1	1		
Net periodic benefit cost	\$ 99	\$ 67	\$ 8	\$ 10

The components of net periodic benefit cost other than the service cost component are included in the line item other expense in the Condensed Combined Statement of Income.

As of September 30, 2023, \$75 million and \$10 million of contributions have been made to pension and other postretirement benefit plans. System institutions presently anticipate contributing an additional \$21 million to fund their pension plans and \$4 million to fund their other postretirement benefit plans during the fourth quarter of 2023.

NOTE 11 — FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. See Note 2 — Summary of Significant Accounting Policies in the *2022 Annual Information Statement* for additional information.

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
(unaudited)
(dollars in millions, except as noted)

Assets and liabilities measured at fair value on a recurring basis at September 30, 2023 and December 31, 2022 for each of the fair value hierarchy levels are summarized below:

<u>September 30, 2023</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Federal funds sold and securities purchased under resale agreements		\$ 9,790		\$ 9,790
Commercial paper, bankers' acceptances, certificates of deposit and other securities		10,954	\$ 17	10,971
U.S. Treasury securities		18,785		18,785
U.S. agency securities		2,199		2,199
Mortgage-backed securities		34,198	60	34,258
Asset-backed securities		6,047	15	6,062
Derivative assets		1,122		1,122
Assets held in non-qualified benefits trusts	\$ 240			240
Total assets	\$ 240	\$ 83,095	\$ 92	\$ 83,427
Liabilities:				
Derivative liabilities		\$ 1,414		\$ 1,414
Collateral liabilities	\$ 15	454		469
Standby letters of credit			\$ 20	20
Total liabilities	\$ 15	\$ 1,868	\$ 20	\$ 1,903

<u>December 31, 2022</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Federal funds sold and securities purchased under resale agreements		\$ 13,053		\$ 13,053
Commercial paper, bankers' acceptances, certificates of deposit and other securities		10,103	\$ 25	10,128
U.S. Treasury securities		22,129		22,129
U.S. agency securities		1,680		1,680
Mortgage-backed securities		31,847	68	31,915
Asset-backed securities		4,633		4,633
Derivative assets		1,059		1,059
Assets held in non-qualified benefits trusts	\$ 218			218
Total assets	\$ 218	\$ 84,504	\$ 93	\$ 84,815
Liabilities:				
Derivative liabilities		\$ 1,165		\$ 1,165
Collateral liabilities	\$ 7	560		567
Standby letters of credit			\$ 22	22
Total liabilities	\$ 7	\$ 1,725	\$ 22	\$ 1,754

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
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The tables below summarize the activity of all Level 3 assets and liabilities measured at fair value on a recurring basis for the three months ended September 30, 2023 and 2022:

	Commercial paper, bankers' acceptances, certificates of deposit and other securities	Mortgage-backed securities	Asset- backed securities	Standby letters of credit
Balance at June 30, 2023	\$ 16	\$ 116	\$ 0	\$ 20
Purchases	1		15	
Issuances				4
Settlements		(2)		(4)
Transfers from Level 3 into Level 2		(54)		
Balance at September 30, 2023	<u>\$ 17</u>	<u>\$ 60</u>	<u>\$ 15</u>	<u>\$ 20</u>
The amount of gains/losses for the period included in other comprehensive income attributable to the change in unrealized gains or losses relating to assets or liabilities still held at September 30, 2023	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

	Commercial paper, bankers' acceptances, certificates of deposit and other securities	Mortgage-backed securities	Standby letters of credit
Balance at June 30, 2022	\$ 19	\$ 76	\$ 20
Total gains or (losses) realized/unrealized:			
Included in other comprehensive loss			(1)
Purchases	4		
Issuances			6
Settlements		(4)	(4)
Balance at September 30, 2022	<u>\$ 23</u>	<u>\$ 71</u>	<u>\$ 22</u>
The amount of gains/losses for the period included in other comprehensive income attributable to the change in unrealized gains or losses relating to assets or liabilities still held at September 30, 2022	<u>\$ 0</u>	<u>\$ (1)</u>	<u>\$ 0</u>

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The tables below summarize the activity of all Level 3 assets and liabilities measured at fair value on a recurring basis for the nine months ended September 30, 2023 and 2022:

	Commercial paper, bankers' acceptances, certificates of deposit and other securities	Mortgage-backed securities	Asset- backed securities	Standby letters of credit
Balance at December 31, 2022	\$ 25	\$ 68	\$ 0	\$ 22
Purchases	10	179	15	
Issuances				13
Settlements	(18)	(8)		(15)
Transfers from Level 3 into Level 2		(179)		
Balance at September 30, 2023	<u>\$ 17</u>	<u>\$ 60</u>	<u>\$ 15</u>	<u>\$ 20</u>
The amount of gains/losses for the period included in other comprehensive income attributable to the change in unrealized gains or losses relating to assets or liabilities still held at September 30, 2023	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

	Commercial paper, bankers' acceptances, certificates of deposit and other securities	Mortgage-backed securities	Standby letters of credit
Balance at December 31, 2021	\$ 20	\$ 145	\$ 21
Total gains or (losses) realized/unrealized:			
Included in other comprehensive loss		(2)	(5)
Purchases		14	134
Issuances			15
Settlements		(9)	(14)
Transfers from Level 3 into Level 2		(191)	
Balance at September 30, 2022	<u>\$ 23</u>	<u>\$ 71</u>	<u>\$ 22</u>
The amount of gains/losses for the period included in other comprehensive income attributable to the change in unrealized gains or losses relating to assets or liabilities still held at September 30, 2022	<u>\$ (2)</u>	<u>\$ (5)</u>	<u>\$ 0</u>

There were no losses included in earnings during the first nine months of 2023 and 2022 that were attributable to the change in unrealized gains or losses relating to assets or liabilities still held at September 30, 2023 and 2022.

Level 3 assets measured at fair value on a non-recurring basis included loans of \$490 million and other property owned of \$30 million at September 30, 2023, as compared to \$423 million and \$32 million at December 31, 2022.

The transfers between Level 3 and Level 2 during the nine months ended September 30, 2023 and 2022 were due to changes in the sources of pricing information.

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
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Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the Condensed Combined Statement of Condition for each of the fair value hierarchy levels are summarized as follows:

	September 30, 2023				
	Total Carrying Amount	Fair Value Measurement Using			Total Fair Value
		Level 1	Level 2	Level 3	
Assets:					
Cash	\$ 5,139	\$ 5,139			\$ 5,139
Other investments held-to-maturity	4,428		\$ 2,119	\$ 2,206	4,325
Net loans	383,477			371,114	371,114
Total assets	\$ 393,044	\$ 5,139	\$ 2,119	\$ 373,320	\$ 380,578
Liabilities:					
Systemwide Debt Securities	\$ 401,854			\$ 382,376	\$ 382,376
Subordinated debt	398			287	287
Other bonds	7,546			7,546	7,546
Other interest bearing liabilities	1,867		\$ 26	1,778	1,804
Total liabilities	\$ 411,665	\$ 0	\$ 26	\$ 391,987	\$ 392,013
Other financial instruments:					
Commitments to extend credit				\$ 298	\$ 298

	December 31, 2022				
	Total Carrying Amount	Fair Value Measurement Using			Total Fair Value
		Level 1	Level 2	Level 3	
Assets:					
Cash	\$ 3,470	\$ 3,470			\$ 3,470
Other investments held-to-maturity	2,888		\$ 928	\$ 1,756	2,684
Net loans	371,690			356,591	356,591
Total assets	\$ 378,048	\$ 3,470	\$ 928	\$ 358,347	\$ 362,745
Liabilities:					
Systemwide Debt Securities	\$ 389,977			\$ 369,715	\$ 369,715
Subordinated debt	398			306	306
Other bonds	5,599			5,599	5,599
Other interest bearing liabilities	2,463		\$ 10	2,302	2,312
Total liabilities	\$ 398,437	\$ 0	\$ 10	\$ 377,922	\$ 377,932
Other financial instruments:					
Commitments to extend credit				\$ 265	\$ 265

Uncertainty of Fair Value Measurements

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default, and loss

severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would have resulted in a significantly lower (higher) fair value measurement.

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)

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Generally, a change in the assumption used for the probability of default would have been accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Quoted market prices are generally not available for the instruments presented below. Accordingly, fair

values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value		Valuation Technique(s)	Unobservable Input	Range of Inputs	
	September 30, 2023	December 31, 2022			September 30, 2023	December 31, 2022
Commercial paper, bankers' acceptances, certificates of deposit and other securities.....	\$ 17	\$ 25	Discounted cash flow	Prepayment rate	0.0%	0.0%
Mortgage-backed securities...	\$ 9	\$ 10	Discounted cash flow	Prepayment rate	3.0%-32.1%	3.0%-32.1%
	51	58	Vendor priced			
	<u>\$ 60</u>	<u>\$ 68</u>				
Asset-backed securities.....	\$ 15	\$ 0	Vendor priced			
Standby letters of credit.....	\$ 20	\$ 22	Discounted cash flow	Rate of funding	50.0%	50.0%
				Risk-adjusted spread	0.1%-1.3%	0.1%-1.3%

With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and

other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

	Valuation Technique(s)	Input
Federal funds sold and securities purchased under resale agreements.....	Carrying value	Par/principal and appropriate interest yield
Investment securities available-for-sale.....	Discounted cash flow	Constant prepayment rate Probability of default Loss severity
	Quoted prices	Price for similar security
Interest rate swaps, caps and floors.....	Discounted cash flow	Annualized volatility Counterparty credit risk Company's own credit risk

Valuation Techniques

As more fully discussed in Note 2 — Summary of Significant Accounting Policies, in the *2022 Annual Information Statement*, FASB guidance establishes a fair value hierarchy, which requires an entity to

maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represents a brief summary of the valuation techniques used by the System for assets and liabilities measured at fair value:

FARM CREDIT SYSTEM
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Investment Securities

Where quoted prices are available in an active market, available-for-sale securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. This would include, but not limited to, U.S. Treasury, U.S. agency and the substantial majority of mortgage-backed and asset-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Securities classified within Level 3 primarily consist of certain mortgage-backed securities including those issued by Farmer Mac and private label-FHA/VA securities.

To estimate the fair value of the majority of the investments held, the Banks and Associations obtain prices from third party pricing services. For the valuation of securities not actively traded, including certain mortgage-backed securities, the Banks and Associations utilize either a third party cash flow model or an internal model. The significant inputs for the valuation models include yields, probability of default, loss severity and prepayment rates.

Derivatives

Exchange-traded derivatives valued using quoted prices would be classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the majority of the derivative positions are valued using internally developed models that use as their basis readily observable market parameters and are classified within Level 2 of the valuation hierarchy. Such derivatives include basic interest rate swaps and options.

The models used to determine the fair value of derivative assets and liabilities use an income approach based on observable market inputs, including the LIBOR, SOFR and Overnight Index Swap curves and volatility assumptions about future interest rate movements.

Assets Held in Non-Qualified Benefits Trusts

Assets held in trust funds related to deferred

compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Standby Letters of Credit

The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

Loans Evaluated for Impairment

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

Other Property Owned

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

Collateral Liabilities

Derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of credit exposure are reached or are cleared through a futures commission merchant, with a clearinghouse (i.e., a central counterparty). The market value of collateral liabilities is its face value plus accrued interest that approximates fair value.

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)

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NOTE 12 — DERIVATIVE PRODUCTS AND HEDGING ACTIVITIES

The Banks and Associations maintain an overall interest rate risk management strategy that incorporates the use of derivative products to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that movements in interest rates do not adversely affect the net interest margin. As a result of interest rate fluctuations, hedged fixed-rate assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by the gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. Another result of interest rate fluctuations is that the interest income and interest expense of hedged floating-rate assets and liabilities will increase or decrease. The effect of this variability in earnings is expected to be substantially offset by the gains and losses on the derivative instruments that are linked to these hedged assets and liabilities. The strategic use of derivatives is considered to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk resulting from changes in interest rates.

In addition, derivative transactions, particularly interest rate swaps, are entered into to lower funding costs, diversify sources of funding, alter interest rate exposures arising from mismatches between assets and liabilities, or better manage liquidity. Interest rate swaps allow us to issue medium-term debt at fixed rates, which are then swapped to floating rates that are lower than those available if floating rate debt was issued directly. Under interest rate swap arrangements,

the parties agree to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index.

The Banks may enter into derivatives with their customers, including Associations, as a service to enable customers to transfer, modify or reduce their interest rate risk by transferring this risk to the Bank. The Banks substantially offset the market risk by concurrently entering into offsetting agreements with non-System institutional counterparties.

A substantial amount of the System's assets are interest-earning assets (principally loans and investments) that tend to be medium-term floating-rate instruments, while the related interest-bearing liabilities tend to be short- or medium-term fixed-rate obligations. Given this asset-liability mismatch, interest rate swaps that pay floating rate and receive fixed rate (receive-fixed swaps) are used to reduce the impact of market fluctuations on net interest income. Because the size of swap positions needed to reduce the impact of market fluctuations varies over time, swaps that receive floating rate and pay fixed rate (pay-fixed swaps) are used to reduce net positions.

Interest rate options may be purchased in order to reduce the impact of rising interest rates on floating-rate debt (interest rate caps) or to reduce the impact of falling interest rates on floating-rate assets (interest rate floors).

In addition, the System had put option contracts with a total notional amount of 110,000 barrels of oil at December 31, 2022 to protect against a decline in oil prices impacting mineral income. No such contracts were outstanding as of September 30, 2023.

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NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
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The primary types of derivative instruments used and the amount of activity (notional amount of derivatives) during the nine months ended September

30, 2023 and 2022 are summarized in the following tables:

	Receive-Fixed Swaps	Pay-Fixed and Amortizing Pay-Fixed Swaps	Floating-for-Amortizing Floating	Interest Rate Caps and Floors	Other Derivatives	Total
Balance at December 31, 2022	\$ 32,445	\$ 37,399	\$ 8,800	\$ 3,460	\$ 12,023	\$ 94,127
Additions	34,175	96,409	400	358	9,304	140,646
Maturities/amortization	(29,616)	(96,787)	(7,650)	(919)	(8,492)	(143,464)
Terminations	(196)	(874)		(10)	(694)	(1,774)
Balance at September 30, 2023	<u>\$ 36,808</u>	<u>\$ 36,147</u>	<u>\$ 1,550</u>	<u>\$ 2,889</u>	<u>\$ 12,141</u>	<u>\$ 89,535</u>

	Receive-Fixed Swaps	Pay-Fixed and Amortizing Pay-Fixed Swaps	Floating-for-Amortizing Floating	Interest Rate Caps and Floors	Other Derivatives	Total
Balance at December 31, 2021	\$ 17,847	\$ 31,775	\$ 1,400	\$ 4,143	\$ 11,872	\$ 67,037
Additions	16,624	78,251	19,900	193	4,749	119,717
Maturities/amortization	(4,359)	(71,647)	(8,000)	(607)	(3,935)	(88,548)
Terminations	(1,179)	(1,171)		(20)	(1,186)	(3,556)
Balance at September 30, 2022	<u>\$ 28,933</u>	<u>\$ 37,208</u>	<u>\$ 13,300</u>	<u>\$ 3,709</u>	<u>\$ 11,500</u>	<u>\$ 94,650</u>

Use of derivatives creates exposure to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, credit risk will equal the fair value gain in a derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes us, thus creating a repayment (credit) risk. When the fair value of the derivative contract is negative, we owe the counterparty and, therefore, assume no repayment risk.

To minimize the risk of credit losses, credit standing and levels of exposure to individual counterparties are monitored and derivative transactions are almost exclusively entered into with non-customer counterparties that have an investment grade or better credit rating from a major rating agency. Nonperformance by any of these counterparties is not anticipated. We typically enter into master agreements that contain netting provisions. These provisions require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. A majority of the derivative contracts are supported by collateral arrangements with counterparties. The

System had a net exposure to counterparties of \$40 million at September 30, 2023 and \$32 million at December 31, 2022.

Derivative transactions may also be cleared through a futures commission merchant (FCM) with a clearinghouse (i.e., a central counterparty (CCP)). When the swap is cleared by the two parties, the single bilateral swap is divided into two separate swaps with the CCP becoming the counterparty to both of the initial parties to the swap. CCPs have several layers of protection against default including margin, member capital contributions, and FCM guarantees of their customers' transactions with the CCP. FCMs also pre-qualify the counterparties to all swaps that are sent to the CCP from a credit perspective, setting limits for each counterparty and collecting initial and variation margin for changes in the value of cleared derivatives. The initial margin and other amounts collected from both parties to the swap protects against credit risk in the event a counterparty defaults. The initial margin and other amounts are set by and held for the benefit of the CCP. Additional initial margin may be required

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NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
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and held by the FCM, due to its guarantees of its customers' trades with the CCP.

Derivative activities are monitored by an Asset-Liability Management Committee (ALCO) at the various System institutions as part of its oversight of asset/liability and treasury functions. Each ALCO is responsible for approving hedging strategies that are developed within parameters established by the board of directors through analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the overall interest rate risk-management strategies.

As of September 30, 2023 and December 31, 2022, the following amounts were recorded on the Condensed Combined Statement of Condition related to cumulative basis adjustments for fair value hedges:

	Carrying Amount of the Hedged Item	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Item
	September 30, 2023	September 30, 2023
Systemwide debt securities	\$ 37,317	\$ (457)*
	Carrying Amount of the Hedged Item	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Item
	December 31, 2022	December 31, 2022
Systemwide debt securities	\$ 32,214	\$ (614)*

* Excluded from these amounts are \$(16) million at September 30, 2023 and \$(24) million at December 31, 2022 of hedging adjustments on discontinued hedging relationships, which will be amortized over the remaining life of the original hedging relationships.

Cash Flow Hedges

For derivative instruments that are designated and qualify as cash flow hedges, the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings.

Fair Value Hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item (principally, debt securities) attributable to the hedged risk are recognized in current earnings. The System includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps.

Derivatives not Designated as Hedges

For derivatives not designated as a hedging instrument, the related change in fair value is recorded in current period earnings in "Net gains (losses) on derivative, investment and other transactions" in the Condensed Combined Statement of Income.

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Fair Values of Derivative Instruments

The following table represents the fair value of derivative instruments:

	Balance Sheet Classification Assets	Fair Value September 30, 2023	Fair Value December 31, 2022	Balance Sheet Classification Liabilities	Fair Value September 30, 2023	Fair Value December 31, 2022
Derivatives designated as hedging instruments:						
Receive-fixed swaps				Other liabilities	\$ 450	\$ 611
Pay-fixed and amortizing pay-fixed swaps	Other assets	\$ 251	\$ 101	Other liabilities		3
Interest rate caps and floors	Other assets	109	114			
Floating-for-floating and amortizing floating-for-floating swaps	Other assets	17	16			
Foreign exchange contracts				Other liabilities		2
Total derivatives designated as hedging instruments		<u>377</u>	<u>231</u>		<u>450</u>	<u>616</u>
Derivatives not designated as hedging instruments:						
Pay-fixed and amortizing pay-fixed swaps	Other assets	13	11			
Derivatives entered into on behalf of customers	Other assets	<u>1,047</u>	<u>829</u>	Other liabilities	<u>964</u>	<u>828</u>
Total derivatives not designated as hedging instruments		1,060	840		964	828
Variation margin settlement		<u>(315)</u>	<u>(12)</u>			<u>(279)</u>
Total derivatives		<u>\$ 1,122</u>	<u>\$ 1,059</u>		<u>\$ 1,414</u>	<u>\$ 1,165</u>

The following table sets forth the effect of derivative instruments in cash flow hedging relationships:

	Amount of Gain or (Loss) Recognized in OCI on Derivatives		Location of Gain or (Loss) Reclassification from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income	
	September 30, 2023	2022		September 30, 2023	2022
Derivatives — Cash Flow Hedging Relationships					
Pay-fixed and amortizing pay-fixed swaps	\$ 241	\$ 282	Interest expense	\$ 28	\$ (26)
Floating-for-floating and amortizing floating-for-floating swaps	(2)	17	Interest expense	(3)	(2)
Interest rate caps and floors	66	101	Interest expense/ interest income	(7)	(7)
Foreign exchange contracts	(3)	1	Interest income	1	1
Total	<u>\$ 302</u>	<u>\$ 401</u>		<u>\$ 19</u>	<u>\$ (34)</u>

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The following table sets forth the effect of fair value and cash flow hedge accounting on the Condensed Combined Statement of Income:

	Location and Amount of Gain or Loss Recognized in Income on Fair Value and Cash Flow Hedging Relationships			
	For the Nine Months Ended September 30, 2023		For the Nine Months Ended September 30, 2022	
	Interest Income	Interest Expense	Interest Income	Interest Expense
Total amount of income and expense line items in which the effects of fair value or cash flow hedges are recorded	\$ 19,147	\$ 10,666	\$ 11,423	\$ 3,587
Effects of fair value and cash flow hedging:				
Fair value hedges:				
Receive-fixed swaps		(161)		737
Systemwide Debt Securities		158		(738)
Cash flow hedges:				
Pay-fixed and amortizing pay-fixed swaps		(28)		26
Floating-for-floating and amortizing floating-for-floating swaps		3		2
Derivatives entered into on behalf of customers		1		(6)
Interest rate caps and floors	2	9	3	10
Foreign exchange contracts	1		1	

The following table sets forth the amount of gains or losses recognized in the Condensed Combined Statement of Income related to derivatives not designated as hedging instruments:

<u>Derivatives Not Designated as Hedging Instruments</u>	<u>Location of Gain or (Loss)</u>	<u>For the Nine Months Ended</u>	
		<u>September 30, 2023</u>	<u>September 30, 2022</u>
Pay-fixed and amortizing pay-fixed swaps	Noninterest income	\$ 1	\$ 15
Derivatives entered into on behalf of customers	Noninterest income	14	(74)
Total		<u>\$ 15</u>	<u>\$ (59)</u>

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
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NOTE 13 — ASSET/LIABILITY OFFSETTING

The following tables represent the offsetting of financial assets and liabilities:

<u>September 30, 2023</u>	Gross Amounts Recognized	Gross Amounts Offset in the Condensed Combined Statement of Condition	Net Amounts Presented in the Condensed Combined Statement of Condition	<u>Gross Amounts Not Offset in the Condensed Combined Statement of Condition</u>			Net Amount
				Securities Received/ Pledged	Cash Collateral Received/Pledged	Cleared Derivative Initial Margin Pledged	
Assets:							
Interest rate swaps and other derivatives ..	\$ 1,122		\$ 1,122	\$ (105)	\$ (469)	\$ 97	\$ 645
Federal Funds sold and securities purchased under resale agreements.....	9,790		9,790	(8,720)			1,070
Liabilities:							
Interest rate swaps and other derivatives ..	1,414		1,414			(225)	1,189

<u>December 31, 2022</u>	Gross Amounts Recognized	Gross Amounts Offset in the Condensed Combined Statement of Condition	Net Amounts Presented in the Condensed Combined Statement of Condition	<u>Gross Amounts Not Offset in the Condensed Combined Statement of Condition</u>			Net Amount
				Securities Received/ Pledged	Cash Collateral Received/Pledged	Cleared Derivative Initial Margin Pledged	
Assets:							
Interest rate swaps and other derivatives ..	\$ 1,059		\$ 1,059	\$ (5)	\$ (567)	\$ 60	\$ 547
Federal Funds sold and securities purchased under resale agreements	13,053		13,053	(9,950)			3,103
Liabilities:							
Interest rate swaps and other derivatives ..	1,165		1,165			(200)	965

FARM CREDIT SYSTEM

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)

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NOTE 14 — COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Banks and Associations have various commitments and contingent liabilities, such as certain letters of credit and commitments to extend credit, which are not reflected in the accompanying condensed combined financial statements. No material losses are anticipated as a result of these transactions.

A summary of the contractual amount of credit-related instruments is as follows:

	<u>September 30,</u> <u>2023</u>
Commitments to extend credit	\$ 134,274
Standby letters of credit	3,139
Commercial and other letters of credit...	152

On at least a quarterly basis, System institutions assess their liabilities and contingencies in connection

with outstanding legal proceedings utilizing the latest information available. For matters where it is probable the institution will incur a loss and the amount can be reasonably estimated, the institution would establish an accrual for the loss. Once established, the accrual would be adjusted as appropriate to reflect any relevant developments. For matters where a loss is not probable or the amount of loss cannot be estimated, no accrual would be established.

At September 30, 2023, various lawsuits were pending or threatened against System institutions. Each System institution to which a pending or threatened lawsuit relates intends to vigorously defend against such action. In the opinion of management, based on information currently available and taking into account the advice of legal counsel, the ultimate liability, if any, of pending or threatened legal actions will not have a material adverse impact on the System's combined results of operations or financial condition.

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(unaudited)
(dollars in millions, except as noted)

NOTE 15 — COMBINING BANK-ONLY INFORMATION

The following condensed combining statements include the statement of condition, statement of comprehensive income and statement of changes in capital for the combined Banks without the affiliated Associations or other System institutions.

Combining Bank-Only Statement of Condition						
September 30, 2023						
	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	CoBank, ACB	Combination Entries	Combined Banks
Assets						
Cash	\$ 600	\$ 4,121	\$ 52	\$ 213		\$ 4,986
Federal funds sold and securities purchased under resale agreements	570	1,000	367	7,853		9,790
Investments (Note 2)	8,396	20,402	6,599	34,960		70,357
Loans						
To Associations(1)	22,565	125,252	20,425	74,488		242,730
To others(2)	10,856	17,864	8,846	67,679	\$ (331)	104,914
Less: allowance for credit losses on loans	(48)	(24)	(42)	(724)		(838)
Net loans	<u>33,373</u>	<u>143,092</u>	<u>29,229</u>	<u>141,443</u>	<u>(331)</u>	<u>346,806</u>
Accrued interest receivable	148	1,443	139	959		2,689
Other assets	340	457	416	2,202	(57)	3,358
Total assets	<u>\$ 43,427</u>	<u>\$ 170,515</u>	<u>\$ 36,802</u>	<u>\$ 187,630</u>	<u>\$ (388)</u>	<u>\$ 437,986</u>
Liabilities and Capital						
Systemwide Debt Securities (Note 7):						
Due within one year	\$ 13,631	\$ 44,961	\$ 11,433	\$ 73,498		\$ 143,523
Due after one year	27,984	111,078	23,384	95,885		258,331
Total Systemwide Debt Securities	41,615	156,039	34,817	169,383		401,854
Accrued interest payable	267	910	204	1,219		2,600
Other liabilities	111	5,597	164	6,680	\$ (90)	12,462
Total liabilities	<u>41,993</u>	<u>162,546</u>	<u>35,185</u>	<u>177,282</u>	<u>(90)</u>	<u>416,916</u>
Capital						
Preferred stock		250	750	1,625		2,625
Capital stock and participation certificates	301	5,086	543	3,908	(311)	9,527
Additional paid-in-capital	64					64
Accumulated other comprehensive loss	(1,186)	(711)	(621)	(2,130)	(10)	(4,658)
Retained earnings	2,255	3,344	945	6,945	23	13,512
Total capital	<u>1,434</u>	<u>7,969</u>	<u>1,617</u>	<u>10,348</u>	<u>(298)</u>	<u>21,070</u>
Total liabilities and capital	<u>\$ 43,427</u>	<u>\$ 170,515</u>	<u>\$ 36,802</u>	<u>\$ 187,630</u>	<u>\$ (388)</u>	<u>\$ 437,986</u>

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
(unaudited)
(dollars in millions, except as noted)

**Combining Bank-Only
Statement of Condition**

December 31, 2022

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	CoBank, ACB	Combination Entries	Combined Banks
Assets						
Cash	\$ 746	\$ 1,357	\$ 142	\$ 896		\$ 3,141
Federal funds sold and securities purchased under resale agreements	350		302	12,401		13,053
Investments (Note 2)	9,076	20,094	6,655	33,097		68,922
Loans						
To Associations(1)	21,218	118,660	19,500	71,437		230,815
To others(2)	10,251	14,811	8,765	68,651	\$ (352)	102,126
Less: allowance for credit losses on loans	(26)	(32)	(16)	(681)		(755)
Net loans	31,443	133,439	28,249	139,407	(352)	332,186
Accrued interest receivable	125	1,028	122	749		2,024
Other assets	333	545	520	2,293	(98)	3,593
Total assets	<u>\$ 42,073</u>	<u>\$ 156,463</u>	<u>\$ 35,990</u>	<u>\$ 188,843</u>	<u>\$ (450)</u>	<u>\$ 422,919</u>
Liabilities and Capital						
Systemwide Debt Securities (Note 7):						
Due within one year	\$ 14,171	\$ 39,326	\$ 11,637	\$ 79,642		\$ 144,776
Due after one year	25,969	105,709	22,335	91,188		245,201
Total Systemwide Debt Securities	40,140	145,035	33,972	170,830		389,977
Accrued interest payable	137	644	136	843		1,760
Other liabilities	344	3,598	259	6,945	\$ (128)	11,018
Total liabilities	40,621	149,277	34,367	178,618	(128)	402,755
Capital						
Preferred stock		250	750	1,633		2,633
Capital stock and participation certificates	301	4,665	545	4,000	(335)	9,176
Additional paid-in-capital	64					64
Accumulated other comprehensive loss	(994)	(869)	(540)	(1,927)	(9)	(4,339)
Retained earnings	2,081	3,140	868	6,519	22	12,630
Total capital	1,452	7,186	1,623	10,225	(322)	20,164
Total liabilities and capital	<u>\$ 42,073</u>	<u>\$ 156,463</u>	<u>\$ 35,990</u>	<u>\$ 188,843</u>	<u>\$ (450)</u>	<u>\$ 422,919</u>

(1) These loans represent direct loans to Associations, not retail loans to borrowers. Since the Associations operate under regulations that require maintenance of certain minimum capital levels, adequate reserves, and prudent underwriting standards, these loans are considered to carry less risk. Accordingly, these loans typically have little or no associated allowance for loan losses. The majority of the credit risk resides with the Banks' and Associations' retail loans to borrowers. Association retail loans are not reflected in the combining Bank-only financial statements.

Further, the loans to the Associations are risk-weighted at 20% of the loan amount in the computation of each Bank's regulatory risk-adjusted capital ratios. Based upon the lower risk-weighting of these loans to the Associations, the Banks, especially AgFirst, AgriBank and Texas, typically operate with more leverage and lower earnings than would be expected from a traditional retail bank. In the case of CoBank, approximately 50% of its loans are retail loans to cooperatives and other eligible borrowers.

(2) Loans to others represent retail loans held by the Banks. The Banks may purchase participations in loans to eligible borrowers made by Associations, other Banks and non-System lenders.

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
(unaudited)
(dollars in millions, except as noted)

Combining Bank-Only
Statement of Comprehensive Income (Loss)
For the Nine Months Ended September 30,

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	CoBank, ACB	Combination Entries	Combined Banks
<u>2023</u>						
Interest income	\$ 1,273	\$ 4,367	\$ 1,062	\$ 6,541	\$ (9)	\$ 13,234
Interest expense	(901)	(3,645)	(804)	(5,170)	31	(10,489)
Net interest income	372	722	258	1,371	22	2,745
Provision for credit losses	(13)	(8)	(33)	(70)		(124)
Noninterest income	24	73	21	315	(98)	335
Noninterest expense	(188)	(141)	(112)	(432)	(28)	(901)
Provision for income taxes				(96)		(96)
Net income	195	646	134	1,088	(104)	1,959
Other comprehensive (loss) income	(192)	158	(81)	(207)	(1)	(323)
Comprehensive income	<u>\$ 3</u>	<u>\$ 804</u>	<u>\$ 53</u>	<u>\$ 881</u>	<u>\$ (105)</u>	<u>\$ 1,636</u>
<u>2022</u>						
Interest income	\$ 767	\$ 1,979	\$ 625	\$ 3,028	\$ (1)	\$ 6,398
Interest expense	(307)	(1,358)	(337)	(1,588)	27	(3,563)
Net interest income	460	621	288	1,440	26	2,835
(Provision for credit losses) credit loss reversal	(3)	5	(1)	(75)		(74)
Noninterest income	24	85	22	273	(106)	298
Noninterest expense	(168)	(135)	(112)	(410)	(22)	(847)
Provision for income taxes				(103)		(103)
Net income	313	576	197	1,125	(102)	2,109
Other comprehensive loss	(989)	(593)	(409)	(2,087)		(4,078)
Comprehensive loss	<u>\$ (676)</u>	<u>\$ (17)</u>	<u>\$ (212)</u>	<u>\$ (962)</u>	<u>\$ (102)</u>	<u>\$ (1,969)</u>

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
(unaudited)
(dollars in millions, except as noted)

Combining Bank-Only
Statement of Changes in Capital

For the Nine Months Ended September 30

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	CoBank, ACB	Combination Entries	Combined Banks
Balance at December 31, 2021	\$ 2,303	\$ 7,006	\$ 1,998	\$ 12,234	\$ (297)	\$ 23,244
Comprehensive loss	(676)	(17)	(212)	(962)	(102)	(1,969)
Preferred stock issued				400		400
Preferred stock retired	(32)			(270)		(302)
Preferred stock dividends		(13)	(35)	(69)		(117)
Capital stock and participation certificates issued		304			(2)	302
Capital stock, participation certificates, and retained earnings retired		(22)	(1)	(157)	7	(173)
Patronage	(2)	(318)	(7)	(543)	86	(784)
Balance at September 30, 2022	<u>\$ 1,593</u>	<u>\$ 6,940</u>	<u>\$ 1,743</u>	<u>\$ 10,633</u>	<u>\$ (308)</u>	<u>\$ 20,601</u>
Balance at December 31, 2022	\$ 1,452	\$ 7,186	\$ 1,623	\$ 10,225	\$ (322)	\$ 20,164
Adjustment to beginning balance due to the change in accounting for credit losses ..	(16)	9	(8)	50		35
Balance at January 1, 2023	1,436	7,195	1,615	10,275	(322)	20,199
Comprehensive income	3	804	53	881	(105)	1,636
Preferred stock retired				(8)		(8)
Preferred stock dividends		(13)	(37)	(70)		(120)
Capital stock and participation certificates issued		428				428
Capital stock, participation certificates, and retained earnings retired		(7)	(2)	(191)	36	(164)
Patronage	(5)	(438)	(12)	(539)	93	(901)
Balance at September 30, 2023	<u>\$ 1,434</u>	<u>\$ 7,969</u>	<u>\$ 1,617</u>	<u>\$ 10,348</u>	<u>\$ (298)</u>	<u>\$ 21,070</u>

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
(unaudited)
(dollars in millions, except as noted)

Certain Bank-only ratios and other information is as follows:

	AgFirst Farm Credit Bank	AgriBank, FCB	Farm Credit Bank of Texas	CoBank, ACB
For the nine months ended:				
<u>September 30, 2023</u>				
Return on average assets	0.61%	0.53%	0.48%	0.77%
Return on average capital	16.33%	11.44%	10.74%	13.74%
<u>September 30, 2022</u>				
Return on average assets	1.04%	0.53%	0.75%	0.84%
Return on average capital	20.42%	11.10%	13.88%	13.38%
For the period ended:				
<u>September 30, 2023</u>				
Nonperforming assets as a percentage of loans and other property owned	0.16%	0.06%	0.18%	0.11%
Allowance for credit losses on loans as a percentage of loans ..	0.14%	0.02%	0.14%	0.51%
Capital as a percentage of total assets	3.30%	4.67%	4.39%	5.52%
Tier 1 Leverage ratio	5.84%	5.11%	5.72%	6.77%
Total Capital ratio	14.6%	16.9%	13.2%	14.3%
Permanent capital ratio	14.3%	16.8%	13.0%	13.5%
Liquidity in days	197	166	191	180
Average liquidity in days during 2023	204	158	187	183
<u>December 31, 2022</u>				
Nonperforming assets ¹ as a percentage of loans and other property owned	0.26%	0.03%	0.11%	0.12%
Allowance for credit losses on loans as a percentage of loans ..	0.08%	0.02%	0.06%	0.49%
Capital as a percentage of total assets	3.45%	4.59%	4.51%	5.41%
Tier 1 Leverage ratio	6.09%	5.15%	5.94%	6.80%
Total Capital ratio	15.5%	16.9%	13.5%	14.3%
Permanent capital ratio	15.3%	16.9%	13.4%	13.5%
Liquidity in days	221	159	197	183
Average liquidity in days during 2022	232	155	181	178

¹Prior to the adoption of CECL on January 1, 2023, nonperforming assets included accruing restructured loans and were presented with accrued interest.

Bank-only information is considered meaningful because only the Banks are jointly and severally liable for the payment of principal and interest on Systemwide Debt Securities. That means that each Bank is primarily liable for the payment of principal and interest on Systemwide Debt Securities issued to fund its lending activities and is also jointly and

severally liable with respect to Systemwide Debt Securities issued to fund the other Banks.

The Associations are the primary owners of the Farm Credit Banks. The Agricultural Credit Bank (CoBank) is principally owned by cooperatives, other eligible borrowers and its affiliated Associations. Due to the financial and operational interdependence of the Banks and Associations, capital at the Association

FARM CREDIT SYSTEM
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS - (continued)
(unaudited)
(dollars in millions, except as noted)

level reduces the Banks' credit exposure with respect to the direct loans between the Banks and each of their affiliated Associations. However, capital of the Associations may not be available if the provisions of joint and several liability were to be invoked. There are various limitations and conditions with respect to each Bank's access to the capital of its affiliated Associations, as more fully discussed in Note 9.

In the event a Bank is unable to timely pay principal or interest on an insured debt obligation for which the Bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent available to insure the timely payment of principal and interest on the insured debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the Banks on the obligation cannot be invoked until the amounts in the Insurance Fund have been exhausted. However, because of other mandatory and discretionary uses of the Insurance Fund, there is no assurance that there will be sufficient funds to pay the principal or interest on the insured debt obligation.

Once joint and several liability is triggered, the Farm Credit Administration is required to make "calls" to satisfy the liability first on all non-defaulting Banks in the proportion that each non-defaulting Bank's available collateral (collateral in excess of the aggregate of the Bank's collateralized obligations) bears to the aggregate available collateral of all non-defaulting Banks. If these calls do not satisfy the liability, then a further call would be made in proportion to each non-defaulting Bank's remaining assets. On making a call on non-defaulting Banks with respect to a Systemwide Debt Security issued on behalf of a defaulting Bank, the Farm Credit

Administration is required to appoint the Insurance Corporation as the receiver for the defaulting Bank. The receiver would be required to expeditiously liquidate the Bank.

NOTE 16 — SUBSEQUENT EVENTS

Effective October 1, 2023, two Associations in the CoBank District merged. The merger is accounted for as described in Note 8.

In compliance with Farm Credit Administration regulations, Compeer Financial, ACA requested permission from the Farm Credit Administration to redeem, in whole, their \$100 million preferred stock issued in May 2013. By letter dated October 4, 2023, Farm Credit Administration provided its approval subject to Compeer continuing to meet applicable regulatory capital requirements following redemption. Stockholders were notified on October 13, 2023, that the preferred stock would be redeemed on November 15, 2023.

In compliance with Farm Credit Administration regulations, AgriBank requested permission from the Farm Credit Administration to redeem, in whole, their \$250 million preferred stock on January 1, 2024. By letter dated October 16, 2023, Farm Credit Administration provided its approval subject to AgriBank continuing to meet applicable regulatory capital requirements following redemption.

The Banks and Associations have evaluated subsequent events through November 9, 2023, which is the date the financial statements were issued and determined that there were no other events requiring disclosure.

FARM CREDIT SYSTEM
SUPPLEMENTAL COMBINING INFORMATION
(unaudited)

The following condensed Combining Statements of Condition and Comprehensive Income present Combined Bank-only and Insurance Fund information, as well as information related to the other entities included in the System's combined financial statements. As part of the combining process, all

significant transactions between the Banks and the Associations, including loans made by the Banks to the Associations and the interest income/interest expense related thereto, and investments of the Associations in the Banks and the earnings related thereto, have been eliminated.

COMBINING STATEMENT OF CONDITION — (Condensed)
September 30, 2023
(in millions)

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	System Combined
Cash and investments	\$ 85,133	\$ 6,496	\$ 3	\$ 91,632		\$ 91,632
Loans	347,644	280,246	(242,745)	385,145		385,145
Less: allowance for credit losses on loans	(838)	(830)		(1,668)		(1,668)
Net loans	346,806	279,416	(242,745)	383,477		383,477
Other assets	6,047	16,026	(11,681)	10,392		10,392
Restricted assets					\$ 7,249	7,249
Total assets	<u>\$437,986</u>	<u>\$ 301,938</u>	<u>\$ (254,423)</u>	<u>\$485,501</u>	<u>\$ 7,249</u>	<u>\$492,750</u>
Systemwide Debt Securities and subordinated debt	\$401,854	\$ 398		\$402,252		\$402,252
Other liabilities	15,062	248,062	\$ (244,896)	18,228		18,228
Total liabilities	<u>416,916</u>	<u>248,460</u>	<u>(244,896)</u>	<u>420,480</u>		<u>420,480</u>
Capital						
Preferred stock	2,625	801		3,426		3,426
Capital stock and participation certificates	9,527	488	(7,900)	2,115		2,115
Additional paid-in-capital	64	6,931		6,995		6,995
Restricted capital					\$ 7,249	7,249
Accumulated other comprehensive loss	(4,658)	(212)	(845)	(5,715)		(5,715)
Retained earnings	13,512	45,470	(782)	58,200		58,200
Total capital	<u>21,070</u>	<u>53,478</u>	<u>(9,527)</u>	<u>65,021</u>	<u>7,249</u>	<u>72,270</u>
Total liabilities and capital	<u>\$437,986</u>	<u>\$ 301,938</u>	<u>\$ (254,423)</u>	<u>\$485,501</u>	<u>\$ 7,249</u>	<u>\$492,750</u>

FARM CREDIT SYSTEM
SUPPLEMENTAL COMBINING INFORMATION - (continued)
(unaudited)

COMBINING STATEMENT OF CONDITION — (Condensed)
December 31, 2022
(in millions)

	Combined Banks	Combined Associations	Eliminations	Combined without Insurance Fund	Insurance Fund	System Combined
Cash and investments	\$ 85,116	\$ 4,887	\$ (107)	\$ 89,896		\$ 89,896
Loans	332,941	271,104	(230,779)	373,266		373,266
Less: allowance for credit losses on loans	(755)	(821)		(1,576)		(1,576)
Net loans	332,186	270,283	(230,779)	371,690		371,690
Other assets	5,617	14,073	(10,886)	8,804		8,804
Restricted assets					\$ 6,673	6,673
Total assets	<u>\$422,919</u>	<u>\$ 289,243</u>	<u>\$ (241,772)</u>	<u>\$470,390</u>	<u>\$ 6,673</u>	<u>\$477,063</u>
Systemwide Debt Securities and subordinated debt	\$389,977	\$ 398		\$390,375		\$390,375
Other liabilities	12,778	238,223	\$ (232,914)	18,087		18,087
Total liabilities	<u>402,755</u>	<u>238,621</u>	<u>(232,914)</u>	<u>408,462</u>		<u>408,462</u>
Capital						
Preferred stock	2,633	783		3,416		3,416
Capital stock and participation certificates	9,176	502	(7,544)	2,134		2,134
Additional paid-in-capital	64	4,533		4,597		4,597
Restricted capital					\$ 6,673	6,673
Accumulated other comprehensive loss	(4,339)	(254)	(899)	(5,492)		(5,492)
Retained earnings	12,630	45,058	(415)	57,273		57,273
Total capital	<u>20,164</u>	<u>50,622</u>	<u>(8,858)</u>	<u>61,928</u>	<u>6,673</u>	<u>68,601</u>
Total liabilities and capital	<u>\$422,919</u>	<u>\$ 289,243</u>	<u>\$ (241,772)</u>	<u>\$470,390</u>	<u>\$ 6,673</u>	<u>\$477,063</u>

In the event a Bank is unable to timely pay principal or interest on an insured debt obligation for which the Bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent necessary to insure the timely payment of principal and interest on the insured debt obligation. The provisions of the Farm Credit Act

providing for joint and several liability of the Banks on the obligation cannot be invoked until the amounts in the Insurance Fund have been exhausted. However, because of other mandatory and discretionary uses of the Insurance Fund, there is no assurance that there will be sufficient funds to timely pay the principal or interest on the insured debt obligation.

FARM CREDIT SYSTEM
SUPPLEMENTAL COMBINING INFORMATION - (continued)
(unaudited)

COMBINING STATEMENT OF COMPREHENSIVE INCOME (LOSS) — (Condensed)
For the Nine Months Ended September 30, 2023
(in millions)

	<u>Combined Banks</u>	<u>Combined Associations</u>	<u>Eliminations</u>	<u>Combined without Insurance Fund</u>	<u>Insurance Fund</u>	<u>Combination Entries</u>	<u>System Combined</u>
Net interest income	\$ 2,745	\$ 5,689	\$ 47	\$ 8,481			\$ 8,481
Provision for credit losses	(124)	(340)		(464)			(464)
Noninterest income	335	1,843	(1,511)	667	\$ 579	\$ (465) (a)	781
Noninterest expense	(901)	(2,950)	240	(3,611)	(3)	465 (a)	(3,149)
Provision for income taxes	(96)	(46)		(142)			(142)
Net income	1,959	4,196	(1,224)	4,931	576	0	5,507
Other comprehensive loss	(323)	(9)	54	(278)			(278)
Comprehensive income	<u>\$ 1,636</u>	<u>\$ 4,187</u>	<u>\$ (1,170)</u>	<u>\$ 4,653</u>	<u>\$ 576</u>	<u>\$ 0</u>	<u>\$ 5,229</u>

For the Nine Months Ended September 30, 2022
(in millions)

	<u>Combined Banks</u>	<u>Combined Associations</u>	<u>Eliminations</u>	<u>Combined without Insurance Fund</u>	<u>Insurance Fund</u>	<u>Combination Entries</u>	<u>System Combined</u>
Net interest income	\$ 2,835	\$ 4,980	\$ 21	\$ 7,836			\$ 7,836
Credit loss reversal (Provision for credit losses)	(74)	83		9			9
Noninterest income	298	1,758	(1,468)	588	\$ 526	\$ (478) (a)	636
Noninterest expense	(847)	(2,756)	248	(3,355)	(3)	478 (a)	(2,880)
Provision for income taxes	(103)	(49)		(152)			(152)
Net income	2,109	4,016	(1,199)	4,926	523	0	5,449
Other comprehensive loss	(4,078)	(127)	116	(4,089)			(4,089)
Comprehensive income (loss)	<u>\$ (1,969)</u>	<u>\$ 3,889</u>	<u>\$ (1,083)</u>	<u>\$ 837</u>	<u>\$ 523</u>	<u>\$ 0</u>	<u>\$ 1,360</u>

Combination entry (a) eliminates the Insurance Fund premiums expensed by the Banks in the first nine months of 2023 and 2022 of \$465 million and

\$478 million and the related income recognized by the Insurance Corporation.

FARM CREDIT SYSTEM
SUPPLEMENTAL COMBINING INFORMATION - (continued)
(unaudited)

The Banks and their affiliated Associations are referred to as Districts. Each District operates in such an interdependent manner that we believe the financial results of the Banks combined with their affiliated Associations are more meaningful to investors in

Systemwide Debt Securities than providing financial information of the Banks and Associations on a stand-alone basis. For the purpose of additional analysis, the following presentation reflects each District, the Insurance Fund and combination entries.

STATEMENT OF CONDITION — (Condensed)
September 30, 2023
(in millions)

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	CoBank District Combined	Insurance Fund and Combination Entries	System Combined
Cash and investments	\$ 9,675	\$ 29,871	\$ 7,203	\$ 44,883		\$ 91,632
Loans	39,818	160,168	37,336	154,191	\$ (6,368)	385,145
Less: allowance for credit losses on loans	(174)	(373)	(126)	(995)		(1,668)
Net loans	39,644	159,795	37,210	153,196	(6,368)	383,477
Other assets	935	3,976	1,045	4,789	(353)	10,392
Restricted assets					7,249	7,249
Total assets	<u>\$ 50,254</u>	<u>\$ 193,642</u>	<u>\$ 45,458</u>	<u>\$ 202,868</u>	<u>\$ 528</u>	<u>\$ 492,750</u>
Systemwide Debt Securities and subordinated debt	\$ 41,615	\$ 156,239	\$ 34,817	\$ 169,581		\$ 402,252
Other liabilities	1,951	7,621	5,030	9,679	\$ (6,053)	18,228
Total liabilities	<u>43,566</u>	<u>163,860</u>	<u>39,847</u>	<u>179,260</u>	<u>(6,053)</u>	<u>420,480</u>
Capital						
Preferred stock		450	1,030	1,946		3,426
Capital stock and participation certificates	182	400	147	1,897	(511)	2,115
Additional paid-in-capital	517	2,662	222	3,594		6,995
Restricted capital					7,249	7,249
Accumulated other comprehensive loss	(1,417)	(1,192)	(646)	(2,454)	(6)	(5,715)
Retained earnings	7,406	27,462	4,858	18,625	(151)	58,200
Total capital	<u>6,688</u>	<u>29,782</u>	<u>5,611</u>	<u>23,608</u>	<u>6,581</u>	<u>72,270</u>
Total liabilities and capital	<u>\$ 50,254</u>	<u>\$ 193,642</u>	<u>\$ 45,458</u>	<u>\$ 202,868</u>	<u>\$ 528</u>	<u>\$ 492,750</u>

FARM CREDIT SYSTEM
SUPPLEMENTAL COMBINING INFORMATION - (continued)
(unaudited)

STATEMENT OF CONDITION — (Condensed)
December 31, 2022
(in millions)

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	CoBank District Combined	Insurance Fund and Combination Entries	System Combined
Cash and investments	\$ 10,202	\$ 24,388	\$ 7,232	\$ 48,074		\$ 89,896
Loans	38,103	152,142	36,421	152,605	\$ (6,005)	373,266
Less: allowance for credit losses on loans	(181)	(321)	(86)	(988)		(1,576)
Net loans	37,922	151,821	36,335	151,617	(6,005)	371,690
Other assets	783	3,152	1,013	4,245	(389)	8,804
Restricted assets					6,673	6,673
Total assets	\$ 48,907	\$ 179,361	\$ 44,580	\$ 203,936	\$ 279	\$ 477,063
Systemwide Debt Securities and subordinated debt	\$ 40,140	\$ 145,235	\$ 33,972	\$ 171,028		\$ 390,375
Other liabilities	2,182	6,048	5,302	10,277	\$ (5,722)	18,087
Total liabilities	42,322	151,283	39,274	181,305	(5,722)	408,462
Capital						
Preferred stock		450	1,030	1,936		3,416
Capital stock and participation certificates	191	383	147	1,930	(517)	2,134
Additional paid-in-capital	355	2,443	222	1,577		4,597
Restricted capital					6,673	6,673
Accumulated other comprehensive loss	(1,244)	(1,386)	(566)	(2,289)	(7)	(5,492)
Retained earnings	7,283	26,188	4,473	19,477	(148)	57,273
Total capital	6,585	28,078	5,306	22,631	6,001	68,601
Total liabilities and capital	\$ 48,907	\$ 179,361	\$ 44,580	\$ 203,936	\$ 279	\$ 477,063

FARM CREDIT SYSTEM
SUPPLEMENTAL COMBINING INFORMATION - (continued)
(unaudited)

STATEMENT OF COMPREHENSIVE INCOME (LOSS) — (Condensed)
For the Nine Months Ended September 30,
(in millions)

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	CoBank District Combined	Insurance Fund and Combination Entries	System Combined
<u>2023</u>						
Net interest income	\$ 1,001	\$ 3,424	\$ 846	\$ 3,184	\$ 26	\$ 8,481
Provision for credit losses	(54)	(193)	(44)	(173)		(464)
Noninterest income	56	288	62	432	(57)	781
Noninterest expense	(548)	(1,393)	(399)	(1,242)	433	(3,149)
Provision for income taxes	(2)	(41)		(99)		(142)
Net income	<u>453</u>	<u>2,085</u>	<u>465</u>	<u>2,102</u>	<u>402</u>	<u>5,507</u>
Other comprehensive (loss) income	(173)	194	(80)	(220)	1	(278)
Comprehensive income	<u>\$ 280</u>	<u>\$ 2,279</u>	<u>\$ 385</u>	<u>\$ 1,882</u>	<u>\$ 403</u>	<u>\$ 5,229</u>
<u>2022</u>						
Net interest income	\$ 1,005	\$ 2,920	\$ 831	\$ 3,048	\$ 32	\$ 7,836
Credit loss reversal (provision for credit losses)	13	57	(7)	(54)		9
Noninterest income	56	298	61	339	(118)	636
Noninterest expense	(511)	(1,287)	(379)	(1,155)	452	(2,880)
Provision for income taxes	(2)	(45)		(105)		(152)
Net income	<u>561</u>	<u>1,943</u>	<u>506</u>	<u>2,073</u>	<u>366</u>	<u>5,449</u>
Other comprehensive loss	(971)	(559)	(404)	(2,156)	1	(4,089)
Comprehensive income (loss)	<u>\$ (410)</u>	<u>\$ 1,384</u>	<u>\$ 102</u>	<u>\$ (83)</u>	<u>\$ 367</u>	<u>\$ 1,360</u>

FARM CREDIT SYSTEM
SUPPLEMENTAL COMBINING INFORMATION - (continued)
(unaudited)

STATEMENT OF CHANGES IN CAPITAL — (Condensed)
For the Nine Months Ended September 30
(in millions)

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	CoBank District Combined	Insurance Fund and Combination Entries	System Combined
Balance at December 31, 2021	\$ 7,330	\$ 27,327	\$ 5,481	\$ 24,042	\$ 5,297	\$ 69,477
Comprehensive income (loss)	(410)	1,384	102	(83)	367	1,360
Preferred stock retired, net	(32)		(20)	(125)		(177)
Capital stock and participation certificates issued	38	46	10	6	(18)	82
Capital stock, participation certificates, and retained earnings retired	(31)	(36)	(9)	(47)	7	(116)
Equity issued or recharacterized upon Association mergers	269	361		126		756
Equity retired or recharacterized upon Association mergers	(308)	(365)		(125)		(798)
Patronage and dividends	(120)	(526)	(123)	(558)	139	(1,188)
Balance at September 30, 2022	<u>\$ 6,736</u>	<u>\$ 28,191</u>	<u>\$ 5,441</u>	<u>\$ 23,236</u>	<u>\$ 5,792</u>	<u>\$ 69,396</u>
Balance at December 31, 2022	\$ 6,585	\$ 28,078	\$ 5,306	\$ 22,631	\$ 6,001	\$ 68,601
Adjustment to beginning balance due to the change in accounting for credit losses	23	46	(12)	98		155
Balance at January 1, 2023	6,608	28,124	5,294	22,729	6,001	68,756
Comprehensive income	280	2,279	385	1,882	403	5,229
Preferred stock issued, net				10		10
Capital stock and participation certificates issued	27	34	6	4	(2)	69
Capital stock, participation certificates, and retained earnings retired	(36)	(17)	(6)	(126)	22	(163)
Equity issued or recharacterized upon Association mergers	164	222		2,021		2,407
Equity retired or recharacterized upon Association mergers	(252)	(272)		(2,237)		(2,761)
Recharacterization of other comprehensive loss due to fair value adjustments related to the Association mergers				51		51
Patronage and dividends	(103)	(588)	(68)	(726)	157	(1,328)
Balance at September 30, 2023	<u>\$ 6,688</u>	<u>\$ 29,782</u>	<u>\$ 5,611</u>	<u>\$ 23,608</u>	<u>\$ 6,581</u>	<u>\$ 72,270</u>

FARM CREDIT SYSTEM
SUPPLEMENTAL FINANCIAL INFORMATION
(unaudited)

COMBINED BANK AND ASSOCIATION (DISTRICT)
SELECTED KEY FINANCIAL RATIOS

The following combined key financial ratios related to each District are intended for the purpose of additional analysis.

	AgFirst District Combined	AgriBank District Combined	Texas District Combined	CoBank District Combined
For the nine months ended:				
<u>September 30, 2023</u>				
Return on average assets	1.22%	1.51%	1.36%	1.38%
Return on average capital	8.84%	9.60%	11.29%	11.97%
Net interest margin	2.75%	2.53%	2.53%	2.13%
Net loan charge-offs as a % of average loans	0.05%	0.06%	0.05%	0.03%
Operating expense as a % of net interest income and noninterest income	51.83%	37.58%	43.98%	34.01%
<u>September 30, 2022</u>				
Return on average assets	1.60%	1.54%	1.58%	1.43%
Return on average capital	10.39%	9.35%	12.21%	11.78%
Net interest margin	2.93%	2.36%	2.65%	2.14%
Net loan charge-offs (recoveries) as a % of average loans	0.00%	(0.01%)	0.00%	0.02%
Operating expense as a % of net interest income and noninterest income	47.86%	39.78%	42.45%	34.06%
At the period ended:				
<u>September 30, 2023</u>				
Nonperforming assets as a % of loans and other property owned	0.50%	0.59%	0.52%	0.45%
Allowance for credit losses on loans as a % of loans	0.44%	0.23%	0.34%	0.65%
Capital as a % of total assets	13.31%	15.38%	12.34%	11.64%
Capital and allowance for credit losses on loans as a % of loans	17.23%	18.83%	15.37%	15.96%
Debt to capital	6.51:1	5.50:1	7.10:1	7.59:1
<u>December 31, 2022</u>				
Nonperforming assets ¹ as a % of loans and other property owned	0.88%	0.42%	0.51%	0.39%
Allowance for credit losses on loans as a % of loans	0.48%	0.21%	0.24%	0.65%
Capital as a % of total assets	13.46%	15.65%	11.90%	11.10%
Capital and allowance for credit losses on loans as a % of loans	17.76%	18.67%	14.80%	15.48%
Debt to capital	6.43:1	5.39:1	7.40:1	8.01:1

¹Prior to the adoption of CECL on January 1, 2023, nonperforming assets included accruing restructured loans and were presented with accrued interest.

FARM CREDIT SYSTEM
SUPPLEMENTAL FINANCIAL INFORMATION - (continued)
(unaudited)

The table below reflects the combined results of each District's measurement under market value of equity and net interest income sensitivity analysis in accordance with their respective asset/liability management policies and District limits. The upward and downward shocks are generally based on

movements of 100 and 200 basis points in interest rates, which are considered significant enough to capture the effects of embedded options and convexity within the assets and liabilities so that underlying risk may be revealed.

District	Change in Market Value of Equity				Change in Net Interest Income			
	September 30, 2023				September 30, 2023			
	-200	-100	+100	+200	-200	-100	+100	+200
AgFirst	11.90%	4.82%	-3.63%	-6.56%	0.12%	-1.17%	2.57%	4.90%
AgriBank	8.48	4.07	-3.97	-7.70	-3.81	-1.74	3.41	4.81
Texas	10.72	4.87	-3.99	-7.30	-4.08	-2.22	2.33	4.45
CoBank	5.81	2.90	-2.84	-5.61	0.12	-0.14	0.38	0.75

District	Change in Market Value of Equity				Change in Net Interest Income			
	December 31, 2022				December 31, 2022			
	-200	-100	+100	+200	-200	-100	+100	+200
AgFirst	10.67%	4.68%	-3.92%	-7.06%	-3.31%	-1.85%	2.46%	5.00%
AgriBank	9.06	4.28	-3.83	-7.29	-3.28	-1.59	3.63	5.41
Texas	12.28	5.95	-5.33	-9.93	-3.06	-1.54	1.73	3.55
CoBank	6.99	3.41	-3.32	-6.56	-1.65	-0.75	1.16	2.32

FARM CREDIT SYSTEM
SUPPLEMENTAL FINANCIAL INFORMATION - (continued)
(unaudited)

SELECTED ASSOCIATION KEY FINANCIAL INFORMATION

The Banks serve as financial intermediaries between the capital markets and the retail lending activities of their affiliated Associations. Accordingly, in addition to the supplemental District information

provided on pages F-62 to F-65, selected financial information regarding Associations with asset size greater than \$2 billion is provided below for the purpose of additional analysis.

	At September 30, 2023				For the Nine Months Ended September 30, 2023			
	Total Assets	Gross Loans	Allowance for Credit Losses on Loans as a % of Gross Loans	Nonperforming Assets as a % of Gross Loans and Other Property Owned	Total Capital Ratio	Return on Average Assets	Return on Average Capital	Net Interest Margin
(\$ in millions)								
AgFirst District								
Horizon Farm Credit, ACA	\$ 6,591	\$ 6,427	0.30%	0.49%	16.21%	2.07%	11.17%	2.83%
AgSouth Farm Credit, ACA	4,187	4,034	0.39	0.35	19.21	2.14	10.58	3.76
AgCredit, ACA	3,167	3,042	0.27	0.30	19.60	1.98	12.03	2.30
First South Farm Credit, ACA	3,135	2,998	0.52	0.26	17.87	1.90	9.47	2.57
AgCarolina Farm Credit, ACA	2,674	2,573	0.57	0.49	17.92	2.11	10.50	3.52
Farm Credit of the Virginias, ACA	2,229	2,169	0.30	0.89	21.44	1.67	7.33	2.79
AgriBank District								
Farm Credit Services of America, ACA ...	43,289	40,297	0.24	0.49	14.31	1.82	10.31	2.47
Farm Credit Mid-America, ACA	35,045	31,471	0.19	0.65	15.87	1.60	9.11	2.31
Compeer Financial, ACA	30,373	26,801	0.29	1.04	14.41	1.61	10.05	2.46
GreenStone Farm Credit Services, ACA ...	13,897	13,286	0.33	0.49	14.68	2.10	12.21	2.65
AgCountry Farm Credit Services, ACA ...	13,248	12,535	0.27	0.40	15.75	1.88	9.25	2.81
Farm Credit Illinois, ACA	6,254	5,565	0.18	0.18	16.72	1.74	8.51	2.68
FCS Financial, ACA	6,060	5,675	0.16	0.28	15.21	1.90	10.52	2.70
AgHeritage Farm Credit Services, ACA ...	2,454	2,338	0.26	0.48	15.76	1.99	10.27	2.85
Texas District								
Capital Farm Credit, ACA	12,321	11,898	0.26	0.54	13.35	2.26	14.85	2.96
AgTexas Farm Credit Services	3,170	2,862	0.41	0.94	13.03	1.86	13.47	2.58
Lone Star, ACA	2,566	2,498	0.26	0.35	15.65	1.63	9.75	2.73
Texas Farm Credit Services	2,356	2,263	0.11	0.69	12.58	2.09	17.53	2.65
CoBank District								
AgWest Farm Credit, ACA	31,426	28,129	0.52	0.68	15.97	2.17	12.12	2.90
American AgCredit, ACA	19,238	18,109	0.10	1.30	13.12	2.09	12.94	3.01
Farm Credit East, ACA	11,173	10,765	0.57	0.27	17.28	2.44	12.92	2.92
Yosemite Farm Credit, ACA	4,477	4,242	0.14	0.32	14.46	2.41	13.98	3.14
Frontier Farm Credit, ACA	2,836	2,668	0.18	0.26	16.11	1.72	8.44	2.68
Golden State Farm Credit, ACA	2,487	2,338	0.14	0.03	14.23	2.62	14.84	3.26
Farm Credit of New Mexico, ACA	2,054	1,940	0.37	0.52	21.23	2.10	8.95	3.59
Oklahoma AgCredit, ACA	2,048	1,934	0.26	0.89	15.47	1.66	9.44	2.77

FARM CREDIT SYSTEM
SUPPLEMENTAL FINANCIAL INFORMATION - (continued)
(unaudited)

SELECTED ASSOCIATION KEY FINANCIAL INFORMATION

	At December 31, 2022				For the Nine Months Ended September 30, 2022			
	Total Assets	Gross Loans	Allowance for Credit Losses on Loans as a % of Gross Loans	Nonperforming Assets ¹ as a % of Gross Loans and Other Property Owned	Total Capital Ratio	Return on Average Assets	Return on Average Capital	Net Interest Margin
(\$ in millions)								
AgFirst District								
Horizon Farm Credit, ACA	\$ 6,209	\$ 6,056	0.38%	1.09%	16.63%	2.10%	10.10%	2.74%
First South Farm Credit, ACA	3,062	2,936	0.70	0.13	17.47	1.73	9.19	2.44
AgCredit, ACA	2,974	2,873	0.24	0.15	20.46	1.80	10.69	2.14
AgSouth Farm Credit, ACA	2,158	2,082	0.69	1.01	22.07	2.40	11.12	3.37
Farm Credit of the Virginias, ACA	2,136	2,090	0.83	1.71	21.93	1.54	6.80	2.60
AgriBank District								
Farm Credit Services of America, ACA ...	40,420	38,310	0.15	0.35	15.00	1.85	10.15	2.31
Farm Credit Mid-America, ACA	32,159	29,275	0.20	0.81	16.63	1.59	8.71	2.12
Compeer Financial, ACA	29,673	26,720	0.20	0.43	14.92	1.82	11.03	2.30
GreenStone Farm Credit Services, ACA ...	13,204	12,670	0.32	0.26	15.36	2.42	13.62	2.48
AgCountry Farm Credit Services, ACA ...	12,240	11,644	0.26	0.25	16.78	1.67	7.91	2.48
FCS Financial, ACA	6,281	5,984	0.29	0.27	15.65	1.86	10.16	2.43
Farm Credit Illinois, ACA	5,789	5,354	0.17	0.08	17.66	1.68	7.51	2.43
AgHeritage Farm Credit Services, ACA ...	2,200	2,103	0.54	0.26	16.00	1.92	10.11	2.66
Texas District								
Capital Farm Credit, ACA	11,841	11,487	0.19	0.60	13.33	2.46	15.99	2.91
AgTexas Farm Credit Services	2,992	2,743	0.29	1.14	13.05	1.93	13.51	2.35
Lone Star, ACA	2,547	2,489	0.23	0.12	15.50	2.09	12.68	2.81
Texas Farm Credit Services	2,294	2,218	0.14	0.48	12.72	2.16	18.89	2.60
CoBank District								
American AgCredit, ACA	18,502	17,432	0.28	1.06	12.81	2.12	13.02	3.00
Northwest Farm Credit Services, ACA ² ...	15,794	14,331	0.47	0.35	17.81	2.27	11.31	2.86
Farm Credit West, ACA ²	14,820	13,295	0.59	0.50	14.67	2.57	14.78	2.86
Farm Credit East, ACA	11,003	10,563	0.49	0.41	17.05	2.65	14.26	2.71
Yosemite Farm Credit, ACA	4,316	4,103	0.30	0.19	13.97	2.02	12.28	2.72
Frontier Farm Credit, ACA	2,814	2,649	0.14	0.23	16.11	1.79	8.59	2.53
Golden State Farm Credit, ACA	2,302	2,169	0.24	0.27	14.23	2.12	11.88	2.78
Farm Credit of New Mexico, ACA	2,165	2,051	0.57	0.56	20.13	1.89	8.21	2.94

¹ Prior to the adoption of CECL on January 1, 2023, nonperforming assets included accruing restructured loans and were presented with accrued interest.

² Effective January 1, 2023, Farm Credit West, ACA merged with and into Northwest Farm Credit Services, ACA. After the merger the Association changed its name to AgWest Farm Credit, ACA.

INDEX TO SUPPLEMENTAL INFORMATION

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CONTROLS AND PROCEDURES

As of September 30, 2023, managements of System institutions carried out an evaluation with the participation of the Funding Corporation's management, including the President and CEO and the Managing Director — Financial Management Division, of the effectiveness of the design and operation of their respective disclosure controls and procedures⁽¹⁾ with respect to the System's quarterly information statement. This evaluation is based on testing of the design and effectiveness of key internal controls, certifications and other information furnished by the principal executive officer and principal financial officer of each System institution, as well as incremental procedures performed by the Funding Corporation over the combining process. Based upon and as of the date of the Funding Corporation's evaluation, the President and CEO and the Managing Director — Financial Management Division concluded that the disclosure controls and procedures are effective in alerting them on a timely basis of any material information relating to the System that is required to be disclosed by the System in the annual and quarterly information statements it files or submits to the Farm Credit Administration.

There have been no significant changes in the System's internal control over financial reporting⁽²⁾ that occurred during the quarter ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, the System's internal control over financial reporting.

⁽¹⁾ For purposes of this discussion, "disclosure controls and procedures" are defined as controls and procedures of the System that are designed to ensure that the financial information required to be disclosed by the System in this quarterly information statement is recorded, processed, summarized and reported, within the time periods specified under the rules and regulations of the Farm Credit Administration.

⁽²⁾ For purposes of this discussion, "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the System's principal executive officers and principal financial officers, or persons performing similar functions, and effected by the System's boards of directors, managements and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the System's condensed combined financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the System; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the System's condensed combined financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the System are being made only in accordance with authorizations of managements and directors of the System; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the System's assets that could have a material effect on the System's condensed combined financial statements.

CERTIFICATION

I, Theresa E. McCabe, certify that:

1. I have reviewed the *Third Quarter 2023 Quarterly Information Statement of the Farm Credit System*.

2. Based on my knowledge, this quarterly information statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly information statement.

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly information statement, fairly present in all material respects the financial condition, results of operations and cash flows of the System as of, and for, the periods presented in this quarterly information statement.

4. The System's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures⁽¹⁾ and internal control over financial reporting⁽²⁾ for the System and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the System, including its combined entities, is made known to us by others within those entities, particularly during the period in which this quarterly information statement is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the System's disclosure controls and procedures and presented in this quarterly information statement our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly information statement based on such evaluation; and

(d) disclosed in this quarterly information statement any change in the System's internal control over financial reporting that occurred during the System's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the System's internal control over financial reporting.

5. The System's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the System's registered public accounting firm and the System Audit Committee:

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the System's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the System's internal control over financial reporting.



Theresa E. McCabe
President and CEO

Date: November 9, 2023

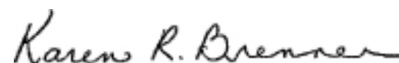
(1) See footnote 1 on page S-2.

(2) See footnote 2 on page S-2.

CERTIFICATION

I, Karen R. Brenner, certify that:

1. I have reviewed the *Third Quarter 2023 Quarterly Information Statement of the Farm Credit System*.
2. Based on my knowledge, this quarterly information statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly information statement.
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly information statement, fairly present in all material respects the financial condition, results of operations and cash flows of the System as of, and for, the periods presented in this quarterly information statement.
4. The System's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures⁽¹⁾ and internal control over financial reporting⁽²⁾ for the System and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the System, including its combined entities, is made known to us by others within those entities, particularly during the period in which this quarterly information statement is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the System's disclosure controls and procedures and presented in this quarterly information statement our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly information statement based on such evaluation; and
 - (d) disclosed in this quarterly information statement any change in the System's internal control over financial reporting that occurred during the System's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the System's internal control over financial reporting.
5. The System's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the System's registered public accounting firm and the System Audit Committee:
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the System's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the System's internal control over financial reporting.



Karen R. Brenner
Managing Director — Financial
Management Division

Date: November 9, 2023

(1) See footnote 1 on page S-2.

(2) See footnote 2 on page S-2.

FARM CREDIT SYSTEM ENTITIES (As of October 1, 2023)

BANKS

AgFirst Farm Credit Bank
P.O. Box 1499
Columbia, SC 29202-1499
(803) 799-5000

AgriBank, FCB
30 East 7th Street
Suite 1600
St. Paul, MN 55101-4914
(651) 282-8800

CoBank, ACB
P.O. Box 5110
Denver, CO 80217-5110
(303) 740-4000

Farm Credit Bank of Texas
P.O. Box 202590
Austin, TX 78720-2590
(512) 465-0400

CERTAIN OTHER ENTITIES

Farm Credit Leasing Services Corporation
1665 Utica Avenue South, Suite 400
Minneapolis, MN 55416
(952) 417-7800

Federal Farm Credit Banks
Funding Corporation
101 Hudson Street, Suite 3505
Jersey City, NJ 07302-3913
(201) 200-8000

FCS Building Association
1501 Farm Credit Drive
McLean, VA 22102-5090
(703) 883-4000

The Farm Credit Council
50 F Street, N.W., Suite 900
Washington, DC 20001-1530
(202) 626-8710

ASSOCIATIONS

AgFirst District

AgCarolina Farm Credit, ACA
636 Rock Spring Road
Greenville, NC 27834

AgCredit, ACA
610 W. Lytle Street
Fostoria, OH 44830-3422

AgGeorgia Farm Credit, ACA
468 Perry Parkway
Perry, GA 31069

AgSouth Farm Credit, ACA
26 South Main Street
Statesboro, GA 30458

ArborOne, ACA
800 Woody Jones Blvd.
Florence, SC 29501

Central Kentucky, ACA
2429 Members Way
Lexington, KY 40504

Colonial Farm Credit, ACA
7104 Mechanicsville Turnpike
Mechanicsville, VA 23111

Farm Credit of Central Florida, ACA
204 E. Orange Street, Suite 200
Lakeland, FL 33801

Farm Credit of Florida, ACA
11903 Southern Blvd.
Suite 200
West Palm Beach, FL 33411

Farm Credit of Northwest Florida, ACA
5052 Highway 90 East
Marianna, FL 32446

Farm Credit of the Virginias, ACA
106 Sangers Lane
Staunton, VA 24401

First South Farm Credit, ACA
574 Highland Colony Parkway,
Suite 100
Ridgeland, MS 39157

Horizon Farm Credit, ACA
300 Winding Creek Blvd
Mechanicsburg, PA 17050

Puerto Rico Farm Credit, ACA
213 Domenech Avenue
San Juan, PR 00918

River Valley AgCredit, ACA
2731 Olivet Church Road
Paducah, KY 42001

Southwest Georgia Farm Credit, ACA
305 Colquitt Highway
Bainbridge, GA 39817

AgriBank District

AgCountry Farm Credit Services, ACA
1900 44th Street South
Fargo, ND 58108

AgHeritage Farm Credit Services, ACA
119 East Third Street, Suite 200
Little Rock, AR 72201

Compeer Financial, ACA
2600 Jenny Wren Trail
Sun Prairie, WI 53590

FCS Financial, ACA
1934 East Miller Street
Jefferson City, MO 65101

Farm Credit Illinois, ACA
1100 Farm Credit Drive
Mahomet, IL 61853

Farm Credit Mid-America, ACA
12501 Lakefront Place
Louisville, KY 40299

Farm Credit Services of America, ACA
5015 South 118th Street
Omaha, NE 68137

Farm Credit Services of Mandan, ACA
1600 Old Red Trail
Mandan, ND 58554

Farm Credit Services of Western Arkansas, ACA
3115 West 2nd Court
Russellville, AR 72801

Farm Credit Southeast Missouri, ACA
1116 N. Main Street
Sikeston, MO 63801

GreenStone Farm Credit Services, ACA
3515 West Road
East Lansing, MI 48823

CoBank District

AgWest Farm Credit, ACA
2001 South Flint Road
Spokane, WA 99224

American AgCredit, ACA
400 Aviation Boulevard
Suite 100
Santa Rosa, CA 95403

Farm Credit East, ACA
240 South Road
Enfield, CT 06082

Farm Credit of Southern Colorado, ACA
5110 Edison Avenue
Colorado Springs, CO 80915

Farm Credit of Western Kansas, ACA
1190 South Range Avenue
Colby, KS 67701

Farm Credit of Western Oklahoma, ACA
3302 Williams Avenue
Woodward, OK 73801

Farm Credit Services of Colusa-Glenn, ACA
2970 Davison Court
Colusa, CA 95932

Fresno-Madera Farm Credit, ACA
4635 West Spruce Ave.
Fresno, CA 93722

Frontier Farm Credit, ACA
2009 Vanesta Place
Manhattan, KS 66503

Golden State Farm Credit, ACA
3013 Ceres Avenue
Chico, CA 95973

High Plains Farm Credit, ACA
605 Main
Larned, KS 67550

Idaho AgCredit, ACA
188 West Judicial Street
Blackfoot, ID 83221

Oklahoma AgCredit, ACA
3033 Progressive Drive
Edmond, OK 73034

Premier Farm Credit, ACA
202 Poplar Street
Sterling, CO 80751

Western AgCredit, ACA
10980 South Jordan Gateway
South Jordan, UT 84095

Yosemite Farm Credit, ACA
806 West Monte Vista Avenue
Turlock, CA 95382

Texas District

Ag New Mexico, Farm Credit Services, ACA
4501 N. Prince Street
Clovis, NM 88101

AgTexas Farm Credit Services
5004 N. Loop 289
Lubbock, TX 79416

Alabama Ag Credit, ACA
7480 Halcyon Pointe Drive, Suite 201
Montgomery, AL 36117

Alabama Farm Credit, ACA
300 2nd Avenue SW
Cullman, AL 35055

Capital Farm Credit, ACA
3000 Briarcrest Drive, Suite 601
Bryan, TX 77802

Central Texas Farm Credit, ACA
1026 Early Boulevard
Early, TX 76802

Heritage Land Bank, ACA
4608 Kinsey Drive, Suite 100
Tyler, TX 75703

Legacy Ag Credit, ACA
303 Connally Street
Sulphur Springs, TX 75482

Lone Star, ACA
1611 Summit Avenue, Suite 325
Fort Worth, TX 76102

Louisiana Land Bank, ACA
2413 Tower Drive
Monroe, LA 71201

Mississippi Land Bank, ACA
5509 Highway 51 North
Senatobia, MS 38668

Plains Land Bank, FLCA
5625 Fulton Drive
Amarillo, TX 79109

Southern AgCredit, ACA
306 Commerce Center Drive
Ridgeland, MS 39157

Texas Farm Credit Services
545 South Highway 77
Robstown, TX 78380