2023

First Quarter
Report To Shareholders

Colusa-Glenn Farm Credit

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

(Unaudited)

The following discussion summarizes the financial position and results of operations of Farm Credit Services of Colusa-Glenn, ACA (the "Association") and subsidiaries for the three months ended March 31, 2023, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2022 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

The shareholders' investment in Farm Credit Services of Colusa-Glenn, ACA is materially affected by the financial condition and results of operations of CoBank, ACB, (CoBank). The 2022 CoBank Annual Report to Shareholders and the CoBank quarterly shareholders' reports are available free of charge by accessing CoBank's website, www.cobank.com, or may be obtained at no charge by contacting us at Farm Credit Services of Colusa-Glenn, ACA, 2970 Davison Court, Colusa, California 95932, or calling (530) 458-2163.

GENERAL

We have continued to grow and diversify our loan portfolio, maintain good credit quality, effectively manage operating costs, and remain well capitalized through the three months ended March 31, 2023. Our success is due, in part, to our conservative lending approach, the financial stability and support of our member-base, proactive portfolio risk management, and our commitment to providing excellent customer service. The Association and its members continue to face challenges from commodity price and supply instability, uncertainty of long-term water supplies, the high cost of farm inputs, and interest rate volatility. The most significant factor impacting our portfolio currently is the deterioration of economic conditions and market volatility impacting the commodities we finance. Our primary concern with these factors is their impact on our members' working capital, overall financial position, and the collateral values supporting our loans. We continue to monitor changes in market conditions impacting the agricultural products we finance to ensure that we provide the best customer service to our members while operating in a safe and sound manner.

While the U.S. economy remains healthy, severe supply chain disruptions, labor shortages, fuel prices, inflation, rising interest rates, weather related events, and recession pressures remain a concern. The rural economy is benefitting from the strong U.S. economy, driving higher levels of spending and investment by businesses and consumers. Most agricultural commodity prices have remained strong despite some decline from the sharp increases in 2022. The Russia/Ukraine conflict has also impacted certain agricultural commodity prices and created additional volatility and uncertainty in the markets. From a monetary policy perspective, the Fed has continued to fight inflationary pressure with interest rate hikes, resulting in two interest rate increases of 25 basis points each in February and March 2023 and more expected in the future. Anticipation of tighter monetary policy is contributing to a stronger dollar and changes in the shape of the yield curve.

LOAN PORTFOLIO

Loans outstanding at March 31, 2023, totaled $644.1 million, a decrease of $30.9 million, or 4.6%, from loans of $675.0 million at December 31, 2022. The decrease was attributable to seasonal loan repayments on commercial loans and scheduled annual mortgage payments.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2023, was $3.5 million, an increase of $855 thousand, or 32.7%, from $2.6 million for the three months ended March 31, 2022. The increase was due to increased net interest income and noninterest income, partially offset by increased provision for credit losses and noninterest expense.

Net interest income for the three months ended March 31, 2023, was $5.3 million, an increase of $1.5 million, or 40.8%, from $3.8 million for the three months ended March 31, 2022. The increase was driven by loan growth year over year combined with higher earnings on our own capital.

The provision for credit losses for the three months ended March 31, 2023, was $547 thousand, an increase of $530 thousand from $17 thousand for the same period ended one year ago. The provision for credit losses through March 31, 2023, was primarily due to specific reserves totaling $429 thousand related to one participation borrower, with the remaining provision driven by deteriorated credit quality. The provision for credit losses for the three months ended March 31, 2022, was due to increased commitments and increased reserves associated with probable incurred losses related to sustained drought conditions and frost damage to the almond crop in early 2022. The increased reserves as of March 31, 2022 were partially offset by loan loss recoveries of $205 thousand.

Noninterest income for the three months ended March 31, 2023, was $822 thousand, an increase of $116 thousand, or 16.4%, from $706 thousand for the same period ended one year ago. This was primarily due to increased patronage income and other noninterest income. Patronage distribution from Farm Credit institutions increased $90 thousand in the first three months ended March 31, 2023, compared with the first three months in 2022 primarily due to increased patronage from other association participation partners. Patronage income from CoBank has also increased due to an increase in our direct note volume. Other noninterest income increased $26 thousand year over year primarily due to increased participation fee income and gains on the disposal of fixed assets, partially offset by decreased earnings from our captive insurance.

Noninterest expense for the three months ended March 31, 2023, was $2.1 million, an increase of $273 thousand, or 14.7%, from $1.9 million for the three months ended March 31, 2022. The increase was primarily due to increased salary and employee benefits, purchased services, Farm Credit insurance fund premiums, and data processing services. Salaries and employee benefits expense increased due to annual merit and cost of living adjustments. Purchased services have increased due to outsourced appraisal costs and increased audit fees. Farm Credit System Insurance Corporation (FCSIC) premiums increased $51 thousand for the three months ended March 31, 2023, compared with the same period in 2022 due to an increase in the insurance premium accrual assessment rate on Systemwide adjusted insured debt from 16 basis points to 18 basis points. FCSIC premiums also increased year over year due to an increase in the average net note payable, which has increased with loan volume. Data processing expense increased year over year due to higher costs for technology and operational services provided by our service provider, AgVantis.

CAPITAL RESOURCES

Our shareholders' equity at March 31, 2023, was $139.8 million, an increase of $2.8 million, or 2.0%, from shareholders' equity of $137.0 million at December 31, 2022. This increase is due to net income and a one-time increase in unallocated retained earnings for the adoption of the new standard on current expected credit losses (CECL), offset by accrued patronage distributions.

OTHER MATTERS

Effective January 1, 2023, our Association adopted the new standard on CECL, under which the allowance is measured based on management's best estimate of current expected credit losses over the remaining contractual life of the loan. Prior periods presented reflect measurement of the allowance based on management's estimate of probable incurred credit losses. For more information, see Note 1 – Organization and Significant Accounting Policies.

On March 5, 2021, the United Kingdom's Financial Conduct Authority (UKFCA) formally announced that all London Interbank Offered Rate (LIBOR) tenors will either be discontinued or no longer be representative immediately after December 31, 2021. As a result, the UKFCA has closely worked with market participants and regulatory authorities around the world to ensure that alternatives to LIBOR are available and that existing contracts can be transitioned onto these alternatives to safeguard financial stability and market integrity.

While our Association currently holds legacy LIBOR indexed loans in our portfolio, we have adopted a transition plan to reduce LIBOR exposures and stop the inflow of new LIBOR volume. We have analyzed potential risks associated with the LIBOR transition, including financial, operational, legal, tax, reputational, and compliance risks. Since we engage in transactions involving financial instruments that reference LIBOR, these developments did not have a material impact on the Association and our borrowers. Management has documented and worked through the LIBOR transition plan with our funding bank and service provider to address the phase out of LIBOR rates, including any updates to processes and loan servicing technology.

FORWARD LOOKING INFORMATION

This discussion contains forward looking statements. These statements are not guarantees of future performance; future operations involve certain risks, uncertainties, and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," or "will" are intended to identify forward-looking statements. These statements are based on management's assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. Readers are cautioned not to place undue reliance on these forward-looking statements. We will not update any forward-looking statements to reflect events or circumstances arising after they are made.

CERTIFICATION

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

Michael Doherty
Chairman of the Board
May 10, 2023

Tim Elrod
President & Chief Executive Officer
May 10, 2023

Amy Ceballos
Chief Financial Officer
May 10, 2023

CONSOLIDATED STATEMENTS OF CONDITION
(In Thousands)

	March 31, 2023	December 31, 2022
	Unaudited	*Audited*
ASSETS		
Loans	$ 644,080	$ 675,007
Less allowance for loan losses	1,804	2,075
Net loans	642,276	672,932
Cash	1,281	3,436
Accrued interest receivable	9,477	9,754
Investment in CoBank, ACB	14,026	13,975
Premises and equipment, net	6,681	6,608
Other assets	2,752	4,965
Total assets	$ 676,493	$ 711,670
LIABILITIES		
Note payable to CoBank, ACB	$ 472,320	$ 519,700
Advance conditional payments	55,402	42,551
Accrued interest payable	1,809	1,423
Patronage distributions payable	1,230	5,000
Accrued benefits liability	94	95
Deferred tax liability	439	333
Unfunded disbursements	1,820	1,624
Reserve for unfunded commitments	616	407
Other liabilities	2,987	3,504
Total liabilities	536,717	574,637
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Capital stock and participation certificates	544	544
Unallocated retained earnings	139,232	136,489
Total shareholders' equity	139,776	137,033
Total liabilities and shareholders' equity	$ 676,493	$ 711,670

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited and in Thousands)

	For the Three Months Ended March 31	
	2023	2022
INTEREST INCOME		
Loans	$ 10,576	$ 4,658
Total interest income	10,576	4,658
INTEREST EXPENSE		
Note payable to CoBank, ACB	4,887	846
Other	363	28
Total interest expense	5,250	874
Net interest income	5,326	3,784
Provision for credit losses	547	17
Net interest income after provision for credit losses	4,779	3,767
NONINTEREST INCOME		
Patronage distribution from Farm Credit Institutions	764	674
Mineral income	1	1
Other noninterest income	57	31
Total noninterest income	822	706
NONINTEREST EXPENSE		
Salaries and employee benefits	1,128	1,022
Occupancy and equipment	139	140
Purchased services	241	140
Farm Credit Insurance Fund premium	213	162
Supervisory and examination costs	66	60
Data processing services	361	347
Other noninterest income, net	(19)	(15)
Total noninterest expense	2,129	1,856
Income before income taxes	3,472	2,617
Provision for income taxes	2	2
Net income/Comprehensive income	$ 3,470	$ 2,615

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited and in Thousands)

	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Total Shareholders' Equity
Balance at December 31, 2021	$ 538	$ 128,924	$ 129,462
Net income/Comprehensive income		2,615	2,615
Capital stock and participation certificates issued	14		14
Capital stock and participation certificates retired	(8)		(8)
Patronage distributions: Cash		(1,069)	(1,069)
Balance at March 31, 2022	$ 544	$ 130,470	$ 131,014
Balance at December 31, 2022	$ 544	$ 136,489	$ 137,033
Net income/Comprehensive income		3,470	3,470
Capital stock and participation certificates issued	10		10
Capital stock and participation certificates retired	(10)		(10)
Patronage distributions: Cash		(1,230)	(1,230)
Cumulative effect of CECL adoption		503	503
Balance at March 31, 2023	$ 544	$ 139,232	$ 139,776

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited and in Thousands, Except Where Noted)

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Farm Credit Services of Colusa-Glenn, ACA (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2022, are contained in the 2022 Annual Report to Shareholders. These unaudited first quarter 2023 financial statements should be read in conjunction with the 2022 Annual Report to Shareholders.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2022, as contained in the 2022 Annual Report to Shareholders.

In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods, have been made. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2023. Descriptions of the significant accounting policies are included in the 2022 Annual Report to Shareholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

Recently Adopted or Issued Accounting Pronouncements

The Association adopted the Financial Accounting Standards Board (FASB) updated guidance entitled “Financial Instruments – Credit Losses: Troubled Debt Restructurings and Vintage Disclosure” on January 1, 2023. 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 and requires disclosure of current period gross write-offs by year of origination for financing receivables and net investments in leases.

The Association also adopted the FASB guidance entitled “Measurement of Credit Losses on Financial Instruments” (CECL) and other subsequently issued accounting standards updates related to credit losses on January 1, 2023. This guidance replaced the current incurred loss impairment methodology with a single allowance framework for financial assets carried at amortized cost and certain off-balance sheet credit exposures. This guidance 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 affect the collectability of the assets. The adoption of this guidance did not have a material impact on our financial statements.

The following table presents the impact to the allowance for credit losses and retained earnings 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	$ 2,075	$ (830)	$ 1,245
Liabilities:			
Allowance for credit losses on unfunded commitments	$ 407	$ 221	$ 628
Deferred tax liabilities	333	106	439
Retained earnings:			
Unallocated retained earnings, net of tax	$ 136,489	$ 503	$ 136,992

Loans and Allowance for Credit Losses

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

Nonaccrual Loans

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

Consistent with prior practice, loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection), circumstances indicate that collection of principal and interest is in doubt, or legal action, including foreclosure or other forms of collateral conveyance, has been initiated to collect the outstanding principal and interest. At the time a loan is placed in nonaccrual status, accrued interest that is considered uncollectible is reversed (if accrued in the current year) and/or included in the recorded nonaccrual balance (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

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

Accrued Interest Receivable

The Association elected to continue classifying accrued interest on loans in accrued interest receivable and not as part of loans on the Consolidated Statement of Condition. The Association also elected to not estimate an allowance on interest receivable balances because the nonaccrual policies in place provide for the accrual of interest to cease on a timely basis when all contractual amounts are not expected.

Loan Modifications to Borrowers Experiencing Financial Difficulty

Loan modifications may be granted to borrowers experiencing financial difficulty. Modifications can be in the form of one or a combination of principal forgiveness, interest rate reduction, other-than-insignificant payment delay, or a term extension. Covenant waivers and modifications of contingent acceleration clauses are not considered term extensions.

Collateral Dependent Loans

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

Allowance for Credit Losses

Beginning January 1, 2023, the ACL represents the estimated current expected credit losses over the remaining contractual life of the loans 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) and
- the allowance for unfunded commitments, which is presented on the balance sheet in other liabilities.

Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio, considering macroeconomic conditions, forecasts, and other factors prevailing at the time, may result in significant changes in the ACL in those future periods.

Methodology for Allowance for Credit Losses on Loans

The ACLL represents management's estimate of credit losses over the remaining expected life of loans. Loans are evaluated on the amortized cost basis, including premiums, discounts, and fair value adjustments.

The Association employs a disciplined process and methodology to establish its ACLL that has two basic components: first, an asset-specific component involving individual loans that do not share risk characteristics with other loans and the measurement of expected credit losses for such individual loans; and second, a pooled component for estimated expected credit losses for pools of loans that share similar risk characteristics.

Asset-specific loans are generally collateral-dependent loans (including those loans for which foreclosure is probable) and nonaccrual loans. For an asset-specific loan, expected credit losses are measured as the difference between the amortized cost basis in the loan and the present value of expected future cash flows discounted at the loan's effective interest rate except that, for collateral-dependent loans, credit loss is measured as the difference between the amortized cost basis in the loan and the fair value of the underlying collateral. The fair value of the collateral is adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral. In accordance with the Association's appraisal policy, the fair value of collateral-dependent loans is based upon independent third-party appraisals or on collateral valuations prepared by in-house appraisers. When an updated appraisal or collateral valuation is received, management reassesses the need for adjustments to the loan's expected credit loss measurements and, where appropriate, records an adjustment. If the calculated expected credit loss is determined to be permanent, fixed, or non-recoverable, the credit loss portion of the loan will be charged off against the allowance for credit losses.

In estimating the pooled component of the ACLL for loan pools that share common risk characteristics, loans are evaluated collectively and segregated into loan pools considering the risk associated with the specific pool. Relevant risk characteristics include loan type, commodity, and credit quality rating. The allowance is determined based on a quantitative calculation of the expected life-of-loan loss percentage for each loan category by considering the probability of default and the severity of loss given default. Loss given default is determined for each pool based on the aggregate net lifetime losses incurred within the pool. The probability of default for each pool is based on the migration of loans from a performing state to a default state within the pool. 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 loan is 90 days or more past due.

The pooled component of the ACLL also considers factors for each loan pool to adjust for differences between the historical period used to calculate historical default and loss severity rates and expected conditions over the remaining lives of the loans in the portfolio related to:

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

The Association uses a single economic scenario over reasonable and supportable forecast period of 12 months. Subsequent to the forecast period, the institution reverts to long-run historical loss experience beyond the 12 month forecast period on a PD/LGD transition matrix model to inform the estimate of losses for the remaining contractual life of the loan portfolio.

The economic forecasts incorporate macroeconomic variables, including agricultural commodity prices, unemployment rates, Gross Domestic Product (GDP) annual growth rates, government spending to GDP, real consumer spending, United States exports, inflation, and Fed Funds rates. Also considered are portfolio trends, competition and legal factors, collateral values, nature and volume of loan concentrations, and loan underwriting and collection reviews.

In addition to the quantitative calculation, the institution considers the imprecision inherent in the process and methodology, emerging risk assessments, and other subjective factors, which may lead to a management adjustment to the modeled ACLL results. Expected credit loss estimates also include consideration of expected cash recoveries on loans previously charged-off or expected recoveries on collateral dependent loans where recovery is expected through sale of the collateral. The economic forecasts are updated on a quarterly basis.

Prior to January 1, 2023, the allowance for loan losses was maintained at a level considered adequate to provide for probable losses existing in and inherent in the loan portfolio. The allowance was based on a periodic evaluation of the loan portfolio in which numerous factors are considered, including economic conditions, collateral values, borrowers' financial conditions, loan portfolio composition, and prior loan loss experience. The allowance for loan losses encompassed various judgments, evaluations, and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity would cause these various judgments, evaluations, and appraisals to change over time. Management considered a number of factors in determining and supporting the levels of the allowances for loan losses, which include, but are not limited to, the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects, and weather-related influences.

Allowance for Credit Losses on Unfunded Commitments

The Association evaluates the need for an allowance for credit losses on unfunded commitments under CECL and, if required, an amount is recognized and included in other liabilities on the Consolidated 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 - LOANS AND ALLOWANCE FOR CREDIT LOSSES

Loan Portfolio

A summary of the Association's loan portfolio as of March 31, 2023, and December 31, 2022, is as follows:

	March 31, 2023	December 31, 2022
Real estate mortgage	$ 355,840	$ 368,375
Production and intermediate-term	99,144	124,361
Agribusiness	134,886	129,477
Rural infrastructure	49,210	47,794
Agricultural export finance	5,000	5,000
Total loans	$ 644,080	$ 675,007

Participations Purchased and Sold

The Association purchases and sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the principal balances of participations purchased and sold as of March 31, 2023, and December 31, 2022:

	March 31, 2023		December 31, 2022	
	Purchased	Sold	Purchased	Sold
Other Farm Credit Institutions:				
Real estate mortgage	$ 72,264	$ 63,136	$ 71,871	$ 64,121
Production and intermediate-term	27,750	6,767	29,151	6,727
Agribusiness	81,731	4,904	76,190	6,522
Rural infrastructure	49,210	-	47,794	-
Agricultural export finance	5,000	-	5,000	-
Subtotal	235,955	74,807	230,006	77,370
Non-Farm Credit Institutions:				
Agribusiness	8,983	-	8,987	-
Subtotal	8,983	-	8,987	-
All Institutions:				
Real estate mortgage	72,264	63,136	71,871	64,121
Production and intermediate-term	27,750	6,767	29,151	6,727
Agribusiness	90,714	4,904	85,177	6,522
Rural infrastructure	49,210	-	47,794	-
Agricultural export finance	5,000	-	5,000	-
Total	$ 244,938	$ 74,807	$ 238,993	$ 77,370

Credit Quality

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

The Association uses a two-dimensional risk rating model based on an internally generated combined System risk rating guidance that incorporates a 14-point probability of default rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default. Probability of default is the probability that a borrower will experience a default during the life of the loan. The loss given default is management's estimate as to the anticipated principal loss on a specific loan assuming default occurs during the remaining life of the loan. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the loan is 90 days or more past due. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship. The institution reviews, at least on an annual basis, or when a credit action is taken, the probability of default category.

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

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

The following table shows loans under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans by loan type as of March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022[1]
Real estate mortgage:		
Acceptable	95.31%	96.74%
OAEM	2.50%	3.13%
Substandard	2.19%	0.13%
Subtotal	100.00%	100.00%
Production and intermediate-term:		
Acceptable	87.76%	92.45%
OAEM	4.47%	7.55%
Substandard	7.77%	-
Subtotal	100.00%	100.00%
Agribusiness:		
Acceptable	98.38%	98.35%
OAEM	0.29%	1.65%
Substandard	1.33%	0.00%
Subtotal	100.00%	100.00%
Rural infrastructure:		
Acceptable	100.00%	100.00%
Subtotal	100.00%	100.00%
Agricultural export finance:		
Acceptable	100.00%	100.00%
Subtotal	100.00%	100.00%
Total Loans:		
Acceptable	95.18%	96.52%
OAEM	2.13%	3.41%
Substandard	2.69%	0.07%
Total	100.00%	100.00%

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

Accrued interest receivable on all accruing loans at March 31, 2023 has been excluded from the amortized cost of loans and reported separately in the Consolidated Statement of Condition.

High Risk Assets

High risk assets consist of nonaccrual loans and other property owned. The following table shows these nonperforming assets and related credit quality statistics as of March 31, 2023.

	March 31, 2023
Nonaccrual loans:	
Agribusiness	$ 1,798
Total high risk assets	$ 1,798
Nonaccrual loans to total loans	0.28%
High risk assets to total loans and other property owned	0.28%
High risk assets to total shareholders' equity	1.29%

The Association had no other property owned as of March 31, 2023, and no nonaccrual loans and no other property owned as of December 31, 2022.

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

	March 31, 2023			For the Three Months Ended March 31, 2023
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	Interest Income Recognized
Nonaccrual loans:				
Agribusiness	$ 1,798	$ -	$ 1,798	$ -
Total	$ 1,798	$ -	$ 1,798	$ -

Past Due Loans

The following tables provide an age analysis of past due loans at amortized cost as of March 31, 2023, and December 31, 2022:

As of March 31, 2023	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ -	$ -	$ -	$ 355,840	$ 355,840	$ -
Production and intermediate-term	173	-	173	98,971	99,144	-
Agribusiness	1,798	-	1,798	133,088	134,886	-
Rural infrastructure	-	-	-	49,210	49,210	-
Agricultural export finance	-	-	-	5,000	5,000	-
Total	$ 1,971	$ -	$ 1,971	$ 642,109	$ 644,080	$ -

Prior to the adoption of CECL on January 1, 2023, the age analysis of past due loans included accrued interest as follows:

As of December 31, 2022	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 188	$ -	$ 188	$ 375,613	$ 375,801	$ -
Production and intermediate-term	2	-	2	125,379	125,381	-
Agribusiness	-	-	-	130,661	130,661	-
Rural infrastructure	-	-	-	47,878	47,878	-
Agricultural export finance	-	-	-	5,040	5,040	-
Total	$ 190	$ -	$ 190	$ 684,571	$ 684,761	$ -

Allowance for Loan Losses

The credit risk rating methodology is a key component of the institution's allowance for credit losses evaluation and is generally incorporated into the institution's loan underwriting standards and internal lending limits. In addition, borrower and commodity concentration lending and leasing limits have been established by each individual System institution to manage credit exposure. The regulatory limit to a single borrower or lessee is 15% of the institution's lending and leasing limit base but System institutions' boards of directors have generally established more restrictive lending limits. This limit applies to Associations with long-term and short- and intermediate-term lending authorities.

Effective January 1, 2023, the Association adopted the CECL accounting guidance as described in Note 1. A summary of changes in the allowance for loan losses is as follows:

	Balance at December 31, 2022	Cumulative Effect of CECL Adoption	Balance at January 1, 2023	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at March 31, 2023
Real estate mortgage	$ 689	$ (167)	$ 522	$ -	$ -	$ 9	$ 531
Production and intermediate-term	843	(517)	326	-	-	150	476
Agribusiness	481	(178)	303	-	-	406	709
Rural infrastructure	56	38	94	-	-	(6)	88
Agricultural export finance	6	(6)	-	-	-	-	-
Total	$ 2,075	$ (830)	$ 1,245	$ -	$ -	$ 559	$ 1,804

	Balance at December 31, 2021	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at March 31, 2022
Real estate mortgage	$ 291	$ -	$ -	$ 216	$ 507
Production and intermediate-term	1,226	18	205	(290)	1,123
Agribusiness	279	-	-	40	319
Rural infrastructure	55	-	-	-	55
Agricultural export finance	6	-	-	-	6
Total	$ 1,857	$ 18	$ 205	$ (34)	$ 2,010

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

Reserve for Unfunded Commitments

The Association maintains a separate reserve for unfunded commitments, which is included in Liabilities on the Association's Consolidated Statement of Condition. The related provision for the reserve for unfunded commitments is included as part of the provision for credit losses on the Consolidated Statement of Comprehensive Income, along with the provision for loan losses.

A summary of changes in the reserve for unfunded commitments follows:

	For the Three Months Ended March 31, 2023
Balance at December 31, 2022	$ 407
Cumulative Effect of CECL Adoption	221
Balance at January 1, 2023	628
Reversal of reserves for unfunded commitments	(12)
Total	$ 616

	For the Three Months Ended March 31, 2022
Balance at December 31, 2021	$ 304
Provision for reserves for unfunded commitments	51
Total	$ 355

Loan Modifications

The following tables show the amortized cost basis at the end of the respective reporting period for loan modifications granted to borrowers experiencing financial difficulty, disaggregated by loan type and type of modification granted:

	Term or Payment Extension	
	March 31, 2023	% of Total Loans
Real estate mortgage	$ 3,948	0.61%
Total loans	$ 3,948	0.61%

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty as of the three months ended March 31, 2023, was $64 thousand.

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty during the three months ended March 31, 2023:

	Term or Payment Extension (in days)
	For the Three Months Ended March 31, 2023
Real estate mortgage	365

None of the loans to borrowers experiencing financial difficulty that received a modification on or after January 1, 2023, the date of adoption of the guidance "Financial Instruments – Credit Losses: Troubled Debt Restructurings and Vintage Disclosure," defaulted in the period presented.

The following table sets forth an aging analysis of loans to borrowers experiencing financial difficulty that were modified on or after January 1, 2023, the date of the adoption of the guidance noted above, through March 31, 2023:

	Payment Status of Loans Modified in the Past Three Months		
	Current	30-89 Days Past Due	90 Days or More Past Due
Real estate mortgage	$ 3,948	$ -	$ -
Total loans	$ 3,948	$ -	$ -

Additional commitments to lend to borrowers experiencing financial difficulty whose loans have been modified were $47 thousand at March 31, 2023.

The Association had no loans held for sale at March 31, 2023, or December 31, 2022.

Troubled Debt Restructuring

Prior to January 1, 2023, the adoption of updated FASB guidance on loan modifications, a restructuring of a loan constituted a troubled debt restructuring, also known as formally restructured, if the creditor for economic or legal reasons related to the borrower's financial difficulties granted a concession to the borrower that it would not otherwise consider. Concessions varied by program and were borrower-specific and could include interest rate reductions, term extensions, payment deferrals, or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may have been forgiven. When a restructured loan constituted a troubled debt restructuring, these loans were included within our impaired loans under nonaccrual or accruing restructured loans. The Association did not have any troubled debt restructures during 2022.

The Association had no TDRs within the previous 12 months and for which there were subsequent payment defaults at December 31, 2022.

NOTE 3 - CAPITAL

Our Association's unallocated retained earnings for the quarter ended March 31, 2023, reflects an increase from the cumulative effect of a change in accounting principle for CECL on January 1, 2023. The impact of adoption was not material to the Association's capital ratios. A summary of select capital ratios based on a three-month average and minimums set by the Farm Credit Administration is as follows:

	As of March 31, 2023	As of December 31, 2022	Regulatory Minimums	Capital Conservation Buffer	Total
Risk Adjusted:					
Common equity tier 1 ratio	15.82%	15.73%	4.5%	2.5%	7.0%
Tier 1 capital ratio	15.82%	15.73%	6.0%	2.5%	8.5%
Total capital ratio	16.06%	16.07%	8.0%	2.5%	10.5%
Permanent capital ratio	15.85%	15.78%	7.0%	-	7.0%
Non-Risk-Adjusted:					
Tier 1 leverage ratio	18.53%	18.65%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	18.45%	18.57%	1.5%	-	1.5%

If capital ratios fall below the regulatory minimum plus buffer amounts, capital distributions (equity redemptions, cash dividend payments, and cash patronage payments) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

NOTE 4 – FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 of the 2022 Annual Report to Shareholders for a more complete description.

Assets measured at fair value on a recurring basis are summarized below:

	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Assets held in nonqualified benefits trusts:				
March 31, 2023	$ 4	$ -	$ -	$ 4
December 31, 2022	$ 4	$ -	$ -	$ 4

The Association had no liabilities measured at fair value on a recurring basis at March 31, 2023, or December 31, 2022.

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

	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Loans:				
March 31, 2023	$ -	$ -	$ 1,369	$ 1,369
December 31, 2022	$ -	$ -	$ -	$ -

With regard to 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 takes into account unobservable inputs such as income and expense, comparable sales, replacement cost, and comparability adjustments.

The Association had no liabilities measured at fair value on a non-recurring basis at March 31, 2023, or December 31, 2022.

Valuation Techniques

As more fully discussed in Note 2 to the 2022 Annual Report to Shareholders, accounting 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 presents a brief summary of the valuation techniques used by the Association for assets and liabilities, subject to fair value measurement.

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.

Loans Evaluated for Impairment

For impaired loans measured on a non-recurring basis, the fair value is based upon the underlying collateral since the loans are collateral dependent loans. 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, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

NOTE 5 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through May 10, 2023, which is the date the financial statements were issued, and no material subsequent events were identified.

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