**Quarterly Report**
**September 30, 2023**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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### MERGER ACTIVITY

The merger between Farm Credit Mid-America, ACA and Farm Credit Midsouth, ACA (Midsouth) was effective April 1, 2023. The merged entity, Farm Credit Mid-America, ACA, is headquartered in Louisville, Kentucky. The merged entity now serves over 137,000 customers in 391 counties in Arkansas, Indiana, Kentucky, Missouri, Ohio, and Tennessee, and yields approximately $35.0 billion in owned assets.

The effects of the merger with Midsouth are included in our financial position, results of operations, equity, and related metrics beginning April 1, 2023. Prior year results have not been restated to reflect the impact of the merger. Upon the closing of the merger, loans increased $914.2 million, assets increased by $978.0 million, liabilities increased by $757.0 million, and members' equity increased by $221.0 million. These amounts include adjustments to fair value, as required by accounting standards for business combinations.

### FORWARD-LOOKING INFORMATION

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

### AGRICULTURAL AND ECONOMIC CONDITIONS

Depending on the source, the general economy is either heading for a soft landing or a prolonged recession. The reality is likely somewhere in between. Inflation readings have improved but remain above the Federal Reserve (the Fed) targets causing the stock market and businesses to remain uneasy. While the economy seems to be improving and the Fed has paused rate increases, there are still concerns about high vacancy rates in commercial real estate and the level of commercial real estate debt held by small and midsized banks. The effect of higher interest rates may increase over the next two years with significant amounts of commercial debt set to re-price in 2024 and 2025. Housing permits are up but housing starts are down as the cost of construction and higher interest rates may be encouraging homeowners to stay in their current homes and keeping the housing market tight. Unemployment remains low, but labor negotiations and other issues have work stoppages at the highest point since the year 2000. Couple all of that with the range of global issues with China, the Russia-Ukraine war, and escalating energy prices, we still have a very vulnerable general and global economy.

The United States Department of Agriculture's (USDA) August 2023 Farm Income Forecast revised 2022 net farm income to a record high $183.0 billion. The 2023 projected net farm income was also revised upward to $141.0 billion. Generally, higher net farm income is good, but since 2012 this will give producers 5 of the highest 15 years of net farm income dating back to the 1930s. At the same time debt in agriculture will reach its highest point on record. Simply put, we are in an unusually high profit margin period in agriculture and one that historically has not been sustainable. Although a small sample, early crop reports show everything from average to record yields in the territory. The current commodity markets are showing expectations of the same with fall crop prices below cost of production for some producers. Protein markets continue to show poor returns in most markets except beef.

Feed costs are dropping but not enough to return profitability to many producers. Even with these challenges most producers and our loan portfolio remain in good condition.

United States farmers' sentiment weakened in August compared to July 2023 as the Purdue University/CME Group Ag Economy Barometer dipped 8 points to a reading of 115. This month's decline was fueled by producers' weaker perception of current conditions both on their farms and in U.S. agriculture as the Current Conditions Index fell 13 points to a reading of 108. The Future Expectations Index also declined in August 2023 to a reading of 119, 5 points below a month earlier. Although farmers reported little change in their farms' financial condition compared to a month earlier, conditions were reported to be weaker than a year earlier. Six out of ten farmers in this month's survey said they expect interest rates to rise over the next year which, along with rising prices for farm machinery and new construction, was cited as a reason for a weaker investment climate. Despite concerns about rising interest rates, producers remain cautiously optimistic about farmland values in both the short-run and longer-term.

## LOAN PORTFOLIO

### Loan Portfolio

Total loans were $31.5 billion at September 30, 2023, an increase of $2.2 billion from December 31, 2022. The increase was primarily due to the merger with Farm Credit Midsouth, that was effective April 1, 2023, as well as growth related to real estate mortgage and production and intermediate-term loans.

### Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2022. Adversely classified loans are loans we have identified as showing some credit weakness according to our credit standards. Adversely classified loans increased to 1.7% of the portfolio at September 30, 2023, from 1.5% of the portfolio at December 31, 2022. We have considered portfolio credit quality in assessing the reasonableness of our allowance for credit losses on loans.

### Nonperforming Assets

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

**Components of Nonperforming Assets**

| (dollars in thousands)<br>**As of:** | **September 30, 2023** | December 31, 2022 |
|---|---|---|
| Loans: | | |
| Non-accrual | **$ 145,835** | $ 96,983 |
| Accruing loans 90 days or more past due | **58,398** | 124,846 |
| Total nonperforming loans | **204,233** | 221,829 |
| Other property owned | **990** | 147 |
| Total nonperforming assets | **$ 205,223** | $ 221,976 |
| Total nonperforming loans as a percentage of total loans | **0.6%** | 0.8% |
| Non-accrual loans as a percentage of total loans | **0.5%** | 0.3% |
| Current non-accrual loans as a percentage of total non-accrual loans | **63.0%** | 73.2% |
| Total delinquencies as a percentage of total loans | **1.0%** | 0.8% |

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

Our nonperforming assets have decreased from December 31, 2022, and remained at acceptable levels. Total nonperforming loans as a percentage of total loans were well within our established risk management parameters.

The increase in non-accrual loans was primarily due to certain real estate and production and intermediate-term loans that moved to non-accrual status during the first quarter of 2023. Non-accrual loans remained at an acceptable level at September 30, 2023, and December 31, 2022.

The decrease in accruing loans 90 days or more past due was primarily due to the collection of delinquent USDA guaranteed loans. The remaining USDA guaranteed assets are well secured and full payment is expected. Our accounting policy requires loans past due 90 days or more to be transferred into non-accrual status unless adequately secured and a plan is in place to collect past due amounts. Based on our analysis, accruing loans 90 days or more past due were eligible to remain in accruing status.

## Allowance for Credit Losses on Loans

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

| As of: | September 30, 2023 | December 31, 2022 |
|---|---|---|
| Allowance for credit losses on loans as a percentage of: | | |
| Loans | **0.19%** | 0.20% |
| Non-accrual loans | **41.5%** | 61.1% |
| Total nonperforming loans[1] | **29.6%** | 27.9% |

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

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

Total allowance for credit losses on loans was $60.5 million at September 30, 2023, and $59.2 million at December 31, 2022. The increase from December 31, 2022, was primarily related to increased specific reserves on loans downgraded to non-accrual status and partially offset by the cumulative effect adjustment as a result of the adoption of CECL. Additional information regarding the CECL adoption is included in Note 1. In our opinion, the allowance for credit losses on loans was reasonable in relation to the risk in our loan portfolio at September 30, 2023.

## RESULTS OF OPERATIONS

**Profitability Information**

(dollars in thousands)

| For the nine months ended September 30, | 2023 | 2022 |
|---|---|---|
| Net income | **$ 401,442** | $ 357,271 |
| Return on average assets | **1.60%** | 1.59% |
| Return on average members' equity | **9.11%** | 8.71% |

Changes presented in the profitability information chart relate directly to:

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

**Changes in Significant Components of Net Income**

(in thousands)

| For the nine months ended September 30, | 2023 | 2022 | Increase (decrease) in net income |
|---|---|---|---|
| Net interest income | **$ 547,646** | $ 453,893 | **$ 93,753** |
| Provision for credit losses | **17,676** | (12,230) | **(29,906)** |
| Non-interest income | **195,381** | 184,611 | **10,770** |
| Non-interest expense | **313,276** | 281,790 | **(31,486)** |
| Provision for income taxes | **10,633** | 11,673 | **1,040** |
| Net income | **$ 401,442** | $ 357,271 | **$ 44,171** |

## Net Interest Income

**Changes in Net Interest Income**

(in thousands)

| For the nine months ended September 30, | 2023 vs 2022 |
|---|---|
| Changes in volume | **$ 38,092** |
| Changes in interest rates | **58,161** |
| Changes in non-accrual income and other | **(2,500)** |
| Net change | **$ 93,753** |

### Provision for Credit Losses

The increase in the provision for credit losses was due to the specific reserves established on loans that moved to non-accrual status during the nine months ended September 30, 2023.

### Non-Interest Expense

The change in non-interest expense was primarily due to increased staffing related expenses.

## FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable was scheduled to mature on April 30, 2025. However, it was renewed early for $32.0 billion with a maturity date of March 31, 2026. We intend to renegotiate the note payable no later than the maturity date. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

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

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

We were not subject to a risk premium at September 30, 2023, or December 31, 2022.

In August 2023, Fitch Ratings lowered the U.S. sovereign's long-term Issuer Default Rating and the long-term debt rating for the Farm Credit System to AA+ from AAA, the F1+ short-term ratings were affirmed, and the outlooks on the long-term debt ratings were revised to stable. As a government-sponsored entity, the Farm Credit System benefits from the implicit government support and, therefore, the ratings are directly linked to the U.S. sovereign rating. Additionally, Fitch Ratings lowered the long-term debt rating for the Farm Credit Banks, including AgriBank, to A+ from AA-, the F1+ short-term rating was affirmed, and the outlook on the long-term debt rating was revised to stable. The reduction in the credit rating by Fitch Ratings for the Farm Credit Banks, including AgriBank, could result in higher funding costs which could impact our costs and, ultimately, retail rates.

Total members' equity increased $437.2 million from December 31, 2022, primarily due to net income for the period, equity adjustments in connection to the merger with Midsouth, and the cumulative effect of the change in accounting principle partially offset by patronage distribution accruals.

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

**Regulatory Capital Requirements and Ratios**

| As of: | September 30, 2023 | December 31, 2022 | Regulatory Minimums | Capital Conservation Buffer | Total |
|---|---|---|---|---|---|
| Risk-adjusted: | | | | | |
| Common equity tier 1 ratio | **15.7%** | 16.4% | 4.5% | 2.5% | 7.0% |
| Tier 1 capital ratio | **15.7%** | 16.4% | 6.0% | 2.5% | 8.5% |
| Total capital ratio | **15.9%** | 16.6% | 8.0% | 2.5% | 10.5% |
| Permanent capital ratio | **15.7%** | 16.4% | 7.0% | N/A | 7.0% |
| Non-risk-adjusted: | | | | | |
| Tier 1 leverage ratio | **15.1%** | 15.6% | 4.0% | 1.0% | 5.0% |
| Unallocated retained earnings and equivalents leverage ratio | **14.9%** | 15.3% | 1.5% | N/A | 1.5% |

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

## CERTIFICATION

The undersigned have reviewed the September 30, 2023, Quarterly Report of Farm Credit Mid-America, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Todd A. Clark
Chair of the Board
Farm Credit Mid-America, ACA

Daniel Wagner
President and Chief Executive Officer
Farm Credit Mid-America, ACA

Steve Zagar
Chief Financial Officer
Farm Credit Mid-America, ACA

November 9, 2023

# CONSOLIDATED STATEMENTS OF CONDITION

*Farm Credit Mid-America, ACA*

*(in thousands)*

| As of: | September 30, 2023 | December 31, 2022 |
|---|---|---|
| | *(Unaudited)* | |
| **ASSETS** | | |
| Loans | **$ 31,470,867** | $ 29,274,940 |
| Allowance for credit losses on loans | **60,465** | 59,233 |
| Net loans | **31,410,402** | 29,215,707 |
| Investment in AgriBank, FCB | **1,102,297** | 1,041,250 |
| Investment securities | **1,626,221** | 1,221,684 |
| Accrued interest receivable | **386,940** | 268,875 |
| Assets held for lease, net | **11,376** | 15,777 |
| Deferred tax assets, net | **1,987** | -- |
| Other assets | **505,739** | 395,221 |
| Total assets | **$ 35,044,962** | $ 32,158,514 |
| **LIABILITIES** | | |
| Note payable to AgriBank, FCB | **$ 28,468,265** | $ 26,015,258 |
| Accrued interest payable | **243,291** | 173,932 |
| Deferred tax liabilities, net | **--** | 302 |
| Patronage distribution payable | **196,377** | 230,000 |
| Other liabilities | **99,973** | 139,164 |
| Total liabilities | **29,007,906** | 26,558,656 |
| Contingencies and commitments (Note 4) | | |
| **MEMBERS' EQUITY** | | |
| Capital stock and participation certificates | **82,812** | 81,749 |
| Additional paid-in capital | **219,777** | -- |
| Unallocated surplus | **5,735,799** | 5,518,828 |
| Accumulated other comprehensive loss | **(1,332)** | (719) |
| Total members' equity | **6,037,056** | 5,599,858 |
| Total liabilities and members' equity | **$ 35,044,962** | $ 32,158,514 |

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

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

*Farm Credit Mid-America, ACA*
*(in thousands)*
*(Unaudited)*

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| *For the period ended September 30,* | **2023** | 2022 | **2023** | 2022 |
| **Interest income** | **$ 439,184** | $ 293,705 | **$ 1,214,421** | $ 786,498 |
| **Interest expense** | **247,785** | 136,833 | **666,775** | 332,605 |
| Net interest income | **191,399** | 156,872 | **547,646** | 453,893 |
| **Provision for credit losses** | **813** | (5,779) | **17,676** | (12,230) |
| Net interest income after provision for credit losses | **190,586** | 162,651 | **529,970** | 466,123 |
| **Non-interest income** | | | | |
| Patronage income | **51,005** | 46,070 | **143,412** | 130,649 |
| Financially related services income | **5,166** | 6,128 | **6,479** | 7,314 |
| Fee income | **14,737** | 11,693 | **40,959** | 37,521 |
| Operating lease income | **413** | 3,652 | **994** | 6,317 |
| Other non-interest income | **2,078** | 3,145 | **3,537** | 2,810 |
| Total non-interest income | **73,399** | 70,688 | **195,381** | 184,611 |
| **Non-interest expense** | | | | |
| Salaries and employee benefits | **64,875** | 53,981 | **185,939** | 163,280 |
| Other operating expense | **44,069** | 41,170 | **126,229** | 117,518 |
| Other non-interest expense | **303** | 8 | **1,108** | 992 |
| Total non-interest expense | **109,247** | 95,159 | **313,276** | 281,790 |
| Income before income taxes | **154,738** | 138,180 | **412,075** | 368,944 |
| **Provision for income taxes** | **4,271** | 4,317 | **10,633** | 11,673 |
| Net income | **$ 150,467** | $ 133,863 | **$ 401,442** | $ 357,271 |
| **Other comprehensive income** | | | | |
| Employee benefit plans activity | **$ 42** | $ 28 | **$ 105** | $ 86 |
| Total other comprehensive income | **42** | 28 | **105** | 86 |
| Comprehensive income | **$ 150,509** | $ 133,891 | **$ 401,547** | $ 357,357 |

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

# CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

*Farm Credit Mid-America, ACA*
*(in thousands)*
*(Unaudited)*

| | Capital Stock and Participation Certificates | Additional Paid-in Capital | Unallocated Surplus | Accumulated Other Comprehensive Loss | Total Members' Equity |
|---|---|---|---|---|---|
| Balance at December 31, 2021 | $ 80,285 | $ -- | $ 5,289,781 | $ (900) | $ 5,369,166 |
| Net income | -- | -- | 357,271 | -- | 357,271 |
| Other comprehensive income | -- | -- | -- | 86 | 86 |
| Unallocated surplus designated for patronage distributions | -- | -- | (161,427) | -- | (161,427) |
| Capital stock and participation certificates issued | 6,423 | -- | -- | -- | 6,423 |
| Capital stock and participation certificates retired | (5,075) | -- | -- | -- | (5,075) |
| Balance at September 30, 2022 | $ 81,633 | $ -- | $ 5,485,625 | $ (814) | $ 5,566,444 |
| Balance at December 31, 2022 | $ 81,749 | $ -- | $ 5,518,828 | $ (719) | $ 5,599,858 |
| Net income | **--** | **--** | **401,442** | **--** | **401,442** |
| Cumulative effect of change in accounting principle | **--** | **--** | **10,058** | **--** | **10,058** |
| Equity adjustments in connection with merger | **1,907** | **219,777** | **--** | **(718)** | **220,966** |
| Other comprehensive income | **--** | **--** | **--** | **105** | **105** |
| Unallocated surplus designated for patronage distributions | **--** | **--** | **(194,529)** | **--** | **(194,529)** |
| Capital stock and participation certificates issued | **6,264** | **--** | **--** | **--** | **6,264** |
| Capital stock and participation certificates retired | **(7,108)** | **--** | **--** | **--** | **(7,108)** |
| **Balance at September 30, 2023** | **$ 82,812** | **$ 219,777** | **$ 5,735,799** | **$ (1,332)** | **$ 6,037,056** |

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim financial information and conform to generally accepted accounting principles in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the nine months ended September 30, 2023, are not necessarily indicative of the results to be expected for the year ending December 31, 2023. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2022 (2022 Annual Report).

#### Merger Activity

Effective April 1, 2023, Farm Credit Midsouth, ACA (Midsouth) merged into Farm Credit Mid-America, ACA (Mid-America). Mid-America acquired 100% of the assets and liabilities of Midsouth. The merged Association, Farm Credit Mid-America, ACA, is headquartered in Louisville, Kentucky. The primary reason for the merger was to strategically position the Associations to best serve member needs. The effects of the merger are included in the Association's results of operations, statement of condition, average balances, and related metrics beginning April 1, 2023.

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of merger, but not for previous periods. The Consolidated Statements of Condition reflect the merged balances as of September 30, 2023. The Consolidated Statements of Comprehensive Income and the Consolidated Statements of Changes in Members' Equity reflect the results of the merged Association after April 1, 2023, and Mid-America prior to April 1, 2023. Information in the Notes to the Consolidated Financial Statements for 2023 reflects balances of the merged Association as of September 30, or in the case of transactional activity, of the merged Association for the period April 1 to September 30.

As cooperative organizations, Farm Credit associations operate for the mutual benefit of their members and other customers and not for the benefit of equity investors. Capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and the bylaws, the associations can issue stock only at its par value of $5 per share, the stock is not tradable, and the stock can be retired only for the lesser of par value or book value. The shares of Midsouth stock were converted in the merger into shares of Mid-America stock with identical rights. For this reason, the conversion of Midsouth stock pursuant to the merger occurred at a one-for-one exchange ratio (i.e., each Midsouth share was converted into one share of Mid-America stock with an equal par value).

Management believes that because the stock in each association is fixed in value (although subject to impairment), the Mid-America stock issued pursuant to the merger provided no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, Mid-America undertook a process to identify and estimate the acquisition-date fair value of Midsouth's equity interests instead of the acquisition-date fair value of Mid-America's equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed from Midsouth, were measured based on various estimates using assumptions that management believes are reasonable utilizing information available as of the merger date. Use of different estimates and judgments could yield materially different results.

The merger was accounted for as a business combination under the acquisition method of accounting. Pursuant to these rules, Mid-America acquired the assets and assumed the liabilities of Midsouth at their acquisition-date fair value. The fair value of the net identifiable assets acquired ($221.0 million) was substantially equal to the fair value of the equity interest exchanged in the merger. In addition, no material amounts of intangible assets were acquired. As a result, no goodwill was recorded. A net increase of $221.0 million was recorded in members' equity related to the merger.

The following condensed statement of net assets acquired reflects the fair value assigned to Midsouth's net assets as of the acquisition date. There were no subsequent changes to the initial fair value measurements since the merger.

**Condensed Statement of Net Assets Acquired**

(in thousands)

| **As of April 1, 2023** | | Midsouth |
|---|---|---|
| **Assets** | | |
| Net loans | $ | 914,229 |
| Accrued interest receivable | | 12,904 |
| Other assets | | 50,838 |
| Total assets | $ | 977,971 |
| **Liabilities** | | |
| Notes payable | $ | 747,453 |
| Accrued interest payable | | 5,471 |
| Other liabilities | | 4,080 |
| Total liabilities | $ | 757,004 |
| Fair value of net assets acquired | $ | 220,967 |

Fair value adjustments to Midsouth's assets and liabilities included a $140.9 million decrease to loans and a $88.6 million decrease to notes payable to reflect credit discounts and changes in interest rates and other market conditions since the time these instruments were issued. These differences are being accreted or amortized into net interest income over the remaining life of the respective loans and debt instruments on an effective yield basis. The Association expects to collect the substantial majority of the contractual amounts of the acquired loans not considered to be purchased credit deteriorated, which totaled $1.1 billion at April 1, 2023.

**Principles of Consolidation**

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

**Significant Accounting Policies**

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

A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan remains contractually past due until certain modifications are completed or until the entire amount past due, including principal, accrued interest and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

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

Included within our loans are loan modifications. Loan modifications may be granted to borrowers experiencing financial difficulty. Qualifying disclosable modifications are one or a combination of principal forgiveness, interest rate reduction, other-than-insignificant term extension, or other-than-insignificant payment deferrals. Other-than-insignificant term extensions are defined as those greater than or equal to six months. Covenant waivers and modifications of contingent acceleration clauses are not considered term extensions. Other-than-insignificant payment deferrals are defined as cumulative or individual payment delays greater than or equal to six months.

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

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

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

*Allowance for Credit Losses on Loans*

Beginning January 1, 2023, the allowance for credit losses on loans (ACLL) represents the estimated current expected credit losses on the loan portfolio over the remaining contractual life of the loan portfolio adjusted for expected prepayments. The ACLL takes into consideration relevant information about past events, current conditions, and reasonable and supportable macroeconomic forecasts of future conditions. The contractual term excludes expected extensions, renewals, and modifications unless the extension or renewal options are not unconditionally cancellable.

The ACLL is increased through provisions for credit losses on loans and loan recoveries and is decreased through reversals of credit losses on loans and loan charge-offs. The provision activity is included as part of the "Provision for credit losses" in the Consolidated Statements of Comprehensive Income.

Determining the appropriateness of the ACLL is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the then-existing loan portfolio, in light of the factors then prevailing, may result in significant changes in the ACLL in those future periods. Loans are evaluated on the amortized cost basis.

The process and methodology to establish the ACLL has two 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 loans that share similar risk characteristics to estimate expected credit losses using the methodology described below. When a loan does not share risk characteristics with other loans, expected credit loss is measured as the difference between the amortized cost basis in the loan and the present value of expected future cash flows discounted at the loan's effective interest rate except that, for collateral-dependent loans, credit loss is measured as the difference between the amortized cost basis in the loan and the fair value of the underlying collateral. The fair value of the collateral is adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral. In accordance with our appraisal policy, the fair value of collateral-dependent loans is based upon independent third-party appraisals or on collateral valuations prepared by in-house appraisers. When an updated appraisal or collateral valuation is received, management reassesses the need for adjustments to the loan's expected credit loss measurements and, where appropriate, records an adjustment. If the calculated expected credit loss is determined to be permanent, fixed or non-recoverable, the credit loss portion of the loan will be charged-off against the ACLL.

In estimating the component of the ACLL that share common risk characteristics, loans are pooled and segregated into loan classes based on loan type, commodity, and internal risk rating. We utilize a model to 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 internal risk rating, and the severity of loss, based on the aggregate net lifetime losses incurred. Loan borrower characteristics are also utilized and include internal risk ratings, loan type, and the remaining term of the loan to calculate an estimated expected credit loss.

In order to calculate this estimated migration of loans from performing to loss, we utilize the weighted results of three economic scenarios (Baseline, Pessimistic, and Optimistic) over a reasonable and supportable forecast period of two years followed by a two year reversion to long-term economic values which obtain of the remaining contractual life of loans. The economic forecasts are updated on a quarterly basis and include macroeconomic variables such as net farm income, unemployment rates, housing price index, and agricultural land values. Subsequent to the forecast period, our model reverts to historical loss experience to estimate losses for the remaining estimated contractual life of the portfolio.

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

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

*Allowance for Credit Losses on Unfunded Commitments*
Under CECL, we evaluate the need for an allowance for credit losses on unfunded commitments, which is included in "Other liabilities" in the Consolidated Statements of Condition. The related provision is included as part of the "Provision for credit losses" in the Consolidated Statements of Comprehensive Income. The amount of expected losses is determined by calculating a commitment usage factor over the contractual period for exposures that are not unconditionally cancellable by the Association 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.

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

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

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

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

### Recently Issued or Adopted Accounting Pronouncements

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

| Standard and effective date | Description | Adoption status and financial statement impact |
|---|---|---|
| In June 2016, the FASB issued ASU 2016-13 "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for our first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 which amended the mandatory effective date for this guidance for certain institutions. We qualified for the deferral of the mandatory effective date. As a result of the change, the standard was effective for our first quarter of 2023 and early adoption was permitted. Additionally, the FASB issued several updates during 2019 refining and clarifying Topic 326. | This guidance replaced the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. | We adopted the standard and subsequently issued updates as of January 1, 2023. As a result of adoption of this guidance, the allowance for credit losses on loans decreased by $10.1 million and the allowance for credit losses on unfunded commitments decreased by $3.6 million, with a cumulative-effect increase, net of tax balances, to retained earnings of $10.1 million.<br><br>The adoption of the standard did not have a material impact related to our held-to-maturity investment portfolio as the substantial majority of these investments carry a full faith and credit guarantee of the U.S. government or an implicit credit guarantee from its agencies and have an immaterial risk of credit loss. No allowance for credit losses was recognized in relation to our investment portfolio upon adoption. |
| In March 2022, the FASB issued ASU 2022-02 "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures." The guidance was effective at the same time that ASU 2016-13 was adopted. | This guidance eliminated the accounting guidance for troubled debt restructurings by creditors in Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings. The expanded Vintage Disclosures are not applicable to nonpublic business entities. | We adopted the standard on January 1, 2023. The adoption of this guidance did not have a material impact on our financial statements, but modified certain disclosures beginning in 2023. However, modifications during the period were not material; therefore, related disclosures have been omitted from this report. |

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

As a result of the merger we acquired $914.2 million in loans, of which 98.8% were categorized as having acceptable credit quality and 99.6% were current in payment status. A portion of the acquired loans were considered to be purchased credit deteriorated. However, they are not significant to the financial statements as a whole.

**Loans by Type**

(dollars in thousands)

| **As of:** | **September 30, 2023** | | December 31, 2022 | |
|---|---|---|---|---|
| | Amortized Cost | % | Amortized Cost | % |
| Real estate mortgage | **$ 19,556,529** | **62.1%** | $ 18,485,811 | 63.1% |
| Production and intermediate-term | **6,091,024** | **19.4%** | 5,125,775 | 17.5% |
| Agribusiness | **3,667,849** | **11.7%** | 3,562,228 | 12.2% |
| Rural residential real estate | **983,204** | **3.1%** | 895,459 | 3.1% |
| Finance leases and other | **1,172,261** | **3.7%** | 1,205,667 | 4.1% |
| Total | **$ 31,470,867** | **100.0%** | $ 29,274,940 | 100.0% |

The finance leases and other category is primarily composed of certain assets characterized as mission related investments and rural infrastructure related loans, as well as lease receivables.

Throughout Note 2 accrued interest receivable on loans of $367.5 million at September 30, 2023, has been excluded from the amortized cost of loans and is presented in "Accrued interest receivable" in the Consolidated Statements of Condition.

## Credit Quality

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

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

We had no loans categorized as loss at September 30, 2023, or December 31, 2022.

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

| (dollars in thousands) | Acceptable | | Special Mention | | Substandard/ Doubtful | | Total | |
|---|---|---|---|---|---|---|---|---|
| **As of September 30, 2023** | Amount | % | Amount | % | Amount | % | Amount | % |
| Real estate mortgage | **$ 19,000,965** | **97.2%** | **$ 235,823** | **1.2%** | **$ 319,741** | **1.6%** | **$ 19,556,529** | **100.0%** |
| Production and intermediate-term | **5,832,665** | **95.7%** | **144,288** | **2.4%** | **114,071** | **1.9%** | **6,091,024** | **100.0%** |
| Agribusiness | **3,526,928** | **96.2%** | **47,181** | **1.3%** | **93,740** | **2.5%** | **3,667,849** | **100.0%** |
| Rural residential real estate | **970,119** | **98.7%** | **1,791** | **0.2%** | **11,294** | **1.1%** | **983,204** | **100.0%** |
| Finance leases and other | **1,158,413** | **98.8%** | **13,499** | **1.2%** | **349** | **0.0%** | **1,172,261** | **100.0%** |
| Total | **$ 30,489,090** | **96.9%** | **$ 442,582** | **1.4%** | **$ 539,195** | **1.7%** | **$ 31,470,867** | **100.0%** |

| | Acceptable | | Special Mention | | Substandard/ Doubtful | | Total | |
|---|---|---|---|---|---|---|---|---|
| As of December 31, 2022 | Amount | % | Amount | % | Amount | % | Amount | % |
| Real estate mortgage | $ 18,050,269 | 96.8% | $ 287,460 | 1.5% | $ 305,671 | 1.7% | $ 18,643,400 | 100.0% |
| Production and intermediate-term | 4,984,802 | 96.1% | 113,124 | 2.2% | 87,124 | 1.7% | 5,185,050 | 100.0% |
| Agribusiness | 3,519,263 | 98.2% | 11,683 | 0.3% | 52,346 | 1.5% | 3,583,292 | 100.0% |
| Rural residential real estate | 885,468 | 98.6% | 1,236 | 0.1% | 11,811 | 1.3% | 898,515 | 100.0% |
| Finance leases and other | 1,221,383 | 100.0% | -- | -- | 503 | 0.0% | 1,221,886 | 100.0% |
| Total | $ 28,661,185 | 97.1% | $ 413,503 | 1.4% | $ 457,455 | 1.5% | $ 29,532,143 | 100.0% |

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

## Delinquency

**Aging Analysis of Loans at Amortized Cost[1]**

| (in thousands) **As of 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 | Accruing Loans 90 Days or More Past Due |
|---|---|---|---|---|---|---|
| Real estate mortgage | **$ 55,670** | **$ 27,596** | **$ 83,266** | **$ 19,473,263** | **$ 19,556,529** | **$ 2,023** |
| Production and intermediate-term | **63,585** | **37,491** | **101,076** | **5,989,948** | **6,091,024** | **20,075** |
| Agribusiness | **33,256** | **187** | **33,443** | **3,634,406** | **3,667,849** | **--** |
| Rural residential real estate | **3,359** | **1,798** | **5,157** | **978,047** | **983,204** | **105** |
| Finance leases and other | **58,714** | **36,414** | **95,128** | **1,077,133** | **1,172,261** | **36,195** |
| Total | **$ 214,584** | **$ 103,486** | **$ 318,070** | **$ 31,152,797** | **$ 31,470,867** | **$ 58,398** |

| As of December 31, 2022 | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less than 30 Days Past Due | Total | Accruing Loans 90 Days or More Past Due |
|---|---|---|---|---|---|---|
| Real estate mortgage | $ 16,194 | $ 12,617 | $ 28,811 | $ 18,614,589 | $ 18,643,400 | $ 449 |
| Production and intermediate-term | 4,162 | 6,084 | 10,246 | 5,174,804 | 5,185,050 | 449 |
| Agribusiness | -- | 148 | 148 | 3,583,144 | 3,583,292 | -- |
| Rural residential real estate | 6,195 | 2,081 | 8,276 | 890,239 | 898,515 | 79 |
| Finance leases and other | 70,903 | 124,072 | 194,975 | 1,026,911 | 1,221,886 | 123,869 |
| Total | $ 97,454 | $ 145,002 | $ 242,456 | $ 29,289,687 | $ 29,532,143 | $ 124,846 |

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

## Non-Accrual Loans

**Non-Accrual Loans by Type**

| (in thousands)<br>**As of:** | | **September 30,<br>2023** | | December 31,<br>2022 |
|---|---|---|---|---|
| Real estate mortgage | **$** | **94,617** | $ | 70,351 |
| Production and intermediate-term | | **45,464** | | 20,766 |
| Agribusiness | | **187** | | 148 |
| Rural residential real estate | | **5,326** | | 5,474 |
| Finance leases and other | | **241** | | 244 |
| Total | **$** | **145,835** | $ | 96,983 |

**Additional Non-Accrual Loans Information**

| | | **As of<br>September 30, 2023** | | **For the Nine Months Ended<br>September 30, 2023** |
|---|---|---|---|---|
| (in thousands) | | Amortized Cost<br>Without Allowance | | Interest Income<br>Recognized |
| Real estate mortgage | **$** | **92,540** | **$** | **6,023** |
| Production and intermediate-term | | **20,166** | | **2,687** |
| Agribusiness | | **187** | | **--** |
| Rural residential real estate | | **5,158** | | **564** |
| Finance leases and other | | **241** | | **--** |
| Total | **$** | **118,292** | **$** | **9,274** |

Reversals of interest income on loans that moved to non-accrual status were not material for the nine months ended September 30, 2023.

## Allowance for Credit Losses

**Changes in Allowance for Credit Losses**

| (in thousands)<br>**Nine months ended September 30,** | | **2023** | | 2022 |
|---|---|---|---|---|
| **Allowance for Credit Losses on Loans** | | | | |
| Balance at beginning of period | **$** | **59,233** | $ | 70,723 |
| Cumulative effect of change in accounting principle | | **(10,114)** | | -- |
| Provision for loan losses | | **12,784** | | (13,600) |
| Loan recoveries | | **848** | | 1,744 |
| Loan charge-offs | | **(2,286)** | | (2,347) |
| Balance at end of period | **$** | **60,465** | $ | 56,520 |
| **Allowance for Credit Losses on Unfunded Commitments** | | | | |
| Balance at beginning of period | **$** | **8,578** | $ | 7,310 |
| Cumulative effect of change in accounting principle | | **(3,561)** | | -- |
| Provision for losses on unfunded commitments | | **4,892** | | 1,370 |
| Balance at end of period | **$** | **9,909** | $ | 8,680 |
| Total allowance for credit losses | **$** | **70,374** | $ | 65,200 |

## Previously Required Disclosures

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

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

**Risk Loan Information**

| (in thousands)<br>**As of:** | | December 31,<br>2022 |
|---|---|---|
| Volume with specific allowance | $ | 10,531 |
| Volume without specific allowance | | 226,246 |
| Total risk loans | $ | 236,777 |
| Total specific allowance | $ | 5,090 |
| For the nine months ended September 30, | | 2022 |
| Income on accrual risk loans | $ | 4,929 |
| Income on non-accrual loans | | 11,774 |
| Total income on risk loans | $ | 16,703 |
| Average risk loans | $ | 267,842 |

Note: Accruing loans include accrued interest receivable.

**TDRs:** Prior to the adoption of CECL, a restructuring of a loan constituted a troubled debt restructuring, also known as formally restructured, if the creditor for economic or legal reasons related to the borrower's financial difficulties granted a concession to the borrower that it would not otherwise consider. Concessions varied by program and were borrower-specific and could include interest rate reductions, term extensions, payment deferrals, or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may have been forgiven.

We completed TDRs of certain production and intermediate-term loans during the nine months ended September 30, 2022. Our recorded investment in these loans just prior to and immediately following restructuring was $724 thousand during the nine months ended September 30, 2022. The recorded investment is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment. The primary types of modification for the nine months ended September 30, 2022, included interest rate reduction below market and forgiveness of principal and interest.

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

**TDRs Outstanding**

| (in thousands)<br>**As of:** | | December 31,<br>2022 |
|---|---|---|
| Accrual status: | | |
| Real estate mortgage | $ | 11,008 |
| Production and intermediate-term | | 2,577 |
| Rural residential real estate | | 1,363 |
| Total TDRs in accrual status | $ | 14,948 |
| Non-accrual status: | | |
| Real estate mortgage | $ | 5,402 |
| Production and intermediate-term | | 762 |
| Rural residential real estate | | 283 |
| Total TDRs in non-accrual status | $ | 6,447 |
| Total TDRs: | | |
| Real estate mortgage | $ | 16,410 |
| Production and intermediate-term | | 3,339 |
| Rural residential real estate | | 1,646 |
| Total TDRs | $ | 21,395 |

Note: Accruing loans include accrued interest receivable.

## NOTE 3: INVESTMENT SECURITIES

We held investment securities of $1.6 billion at September 30, 2023, and $1.2 billion at December 31, 2022. Our investment securities consisted of pools of loans guaranteed by the Small Business Administration (SBA), except for $5.5 million at September 30, 2023, and $5.7 million at December 31, 2022, which were not guaranteed.

The investment securities have been classified as held-to-maturity. Effective January 1, 2023, we adopted CECL, which amended the previous other-than-temporary impairment model for investment securities to incorporate an allowance for credit losses on investment securities. There was no allowance for credit losses on investment securities at September 30, 2023. Prior to January 1, 2023, the investment portfolio was evaluated for other-than-temporary impairment. No investments were impaired at December 31, 2022.

Our investments are either mortgage-backed securities (MBS), which are generally longer-term investments, or asset-backed securities (ABS), which are generally shorter-term investments. SBA guaranteed investments may be comprised of either MBS or ABS.

**Additional Investment Securities Information**

| (in thousands)<br>**As of September 30, 2023** | | Amortized Cost |
|---|---|---|
| MBS | **$** | **1,226,937** |
| ABS | | **399,284** |
| Total | **$** | **1,626,221** |

Accrued interest receivable on investment securities is presented in “Accrued interest receivable” in the Consolidated Statements of Condition and was $19.4 million at September 30, 2023.

Investment income is recorded in “Interest income” in the Consolidated Statements of Comprehensive Income and totaled $51.4 million and $7.4 million for the nine months ended September 30, 2023, and 2022, respectively.

**Contractual Maturities of Investment Securities**

| (in thousands)<br>**As of September 30, 2023** | | Amortized Cost |
|---|---|---|
| Less than one year | **$** | **93** |
| One to five years | | **10,574** |
| Five to ten years | | **294,699** |
| More than ten years | | **1,320,855** |
| Total | **$** | **1,626,221** |

### Previously Required Disclosures

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

**Additional Investment Securities Information**

| (dollars in thousands)<br>As of December 31, 2022 | Weighted Average Yield | | Amortized Cost | | Unrealized Gains | | Unrealized Losses | | Fair Value |
|---|---|---|---|---|---|---|---|---|---|
| MBS | 1.6% | $ | 877,619 | $ | -- | $ | 74,961 | $ | 802,658 |
| ABS | 2.3% | | 344,065 | | -- | | 24,144 | | 319,921 |
| Total | 1.8% | $ | 1,221,684 | $ | -- | $ | 99,105 | $ | 1,122,579 |

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

| (in thousands) | Less than 12 months | | | | Greater than 12 months | | | |
|---|---|---|---|---|---|---|---|---|
| As of December 31, 2022 | | Fair Value | | Unrealized Losses | | Fair Value | | Unrealized Losses |
| MBS | $ | 654,761 | $ | 55,442 | $ | 147,691 | $ | 19,519 |
| ABS | | 298,548 | | 21,902 | | 21,373 | | 2,242 |
| Total | $ | 953,309 | $ | 77,344 | $ | 169,064 | $ | 21,761 |

## NOTE 4: CONTINGENCIES AND COMMITMENTS

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

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

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

## NOTE 5: FAIR VALUE MEASUREMENTS

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

We did not have any assets or liabilities measured at fair value on a recurring basis at September 30, 2023, or December 31, 2022.

### Non-Recurring Basis

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

**Assets Measured at Fair Value on a Non-Recurring Basis**

(in thousands)

| **As of September 30, 2023** | Fair Value Measurement Using | | | Total Fair |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Value |
| Loans | **$ --** | **$ --** | **$ 8,244** | **$ 8,244** |
| Other property owned | **--** | **--** | **1,049** | **1,049** |

| As of December 31, 2022 | Fair Value Measurement Using | | | Total Fair |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Value |
| Loans | $ -- | $ -- | $ 5,712 | $ 5,712 |
| Other property owned | -- | -- | 156 | 156 |

### Valuation Techniques

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

**Other Property Owned:** Represents the fair value of foreclosed assets measured based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, they are classified as Level 3.

## NOTE 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through November 9, 2023, which is the date the Consolidated Financial Statements were available to be issued. On November 1, 2023, we sold to AgriBank a participation interest in certain real estate loans under the AgriBank Asset Pool program totaling approximately $391.9 million. These participations were added to the participation pool originally established by AgriBank in 2008. AgriBank has established a separate patronage pool for these assets and intends to pay the net earnings back to us as patronage. There have been no other material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.