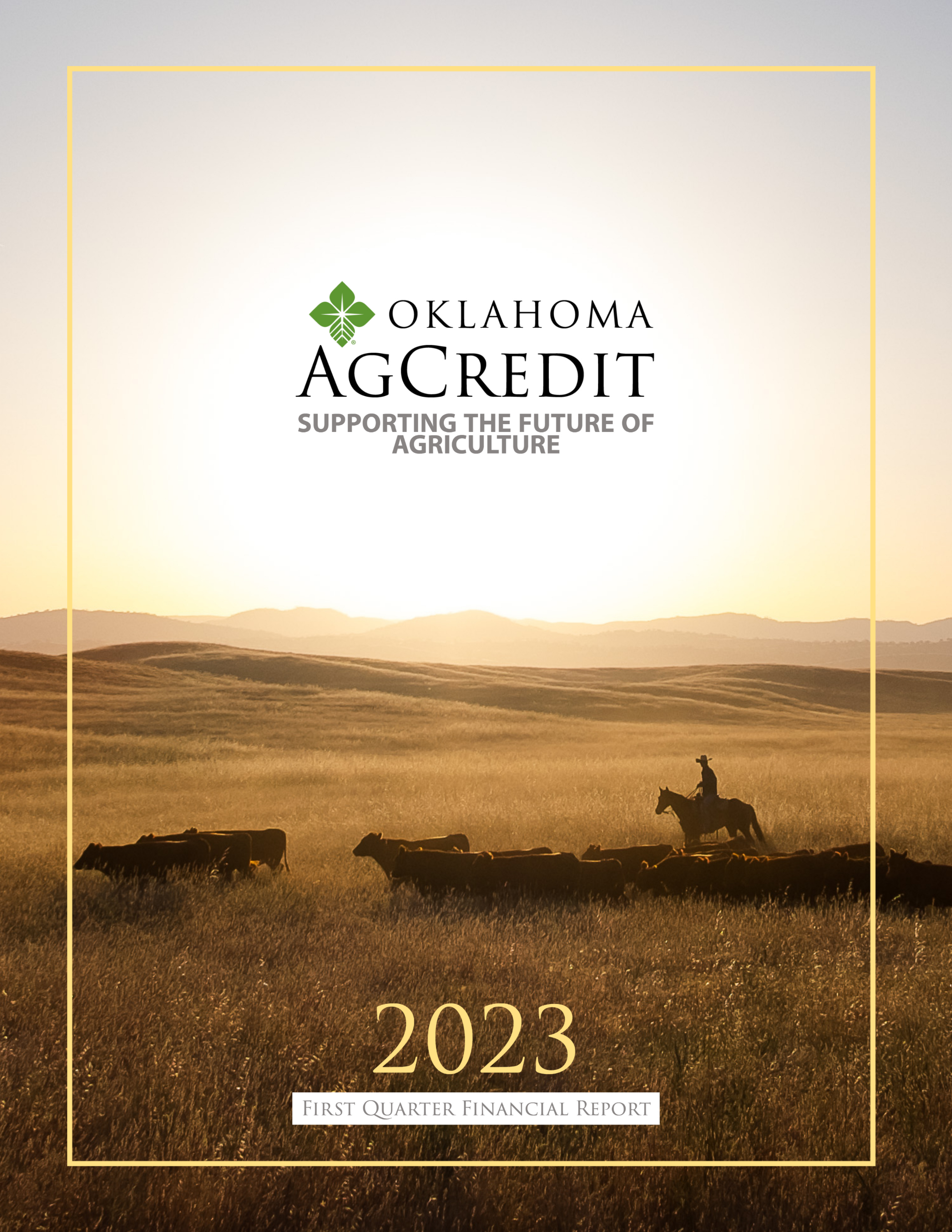

OKLAHOMA AgCredit

SUPPORTING THE FUTURE OF AGRICULTURE

2023

First Quarter Financial Report

NOTICE

The shareholders' investment in Oklahoma AgCredit, 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:

Oklahoma AgCredit, ACA
3033 Progressive Drive
Edmond, Oklahoma 73034
405-938-1700

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 Oklahoma AgCredit, ACA (the Association) 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.

ECONOMIC OVERVIEW

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 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 in February and March 2023. The latest economic data shows a slowing rate of inflation, which suggests the possibility of slower rate increases or even rate decreases during the last three to six months of 2023.

The bond market appears to be anticipating a potential economic recession with the 2-year treasury and 10-year treasury remaining inverted for many months. The stock market also experienced volatility but finished the quarter with a positive rate of return despite uncertainty. The situation surrounding the Silicon Valley Bank and Signature Bank situation has created significant concern regarding the health of the United States financial system. The Federal Reserve, United States Treasury Department, and Federal Deposit Insurance Corporation (FDIC) appear committed to minimizing the systemic impact of the bank failures. The full effects of the potential banking crisis remain to be seen.

Our trade territory is split in regard to moisture as the eastern side of the trade territory has experienced adequate rainfall, but the western portion of our territory remains in drought conditions which are worsening by the day. The winter wheat crop is in below average to poor condition and provided little to no winter grazing for stocker cattle. Grass pasture and forage conditions across the territory range from poor to average. Due to the lack of widespread rainfall, it is anticipated that the amount of planted summer crop acres will be reduced.

Throughout the quarter, cattle prices have strengthened for live cattle, feeder cattle, and slaughter cattle. Grain prices have trended downward since the 3rd quarter of 2022 but began to strengthen towards the end of the first quarter of 2023. Crop and livestock input prices remain elevated. Drought, as well as high input prices, adversely affect our borrowers.

West Texas Intermediate crude, which began the year at approximately $80 per barrel, ranged from $67 to $80 during the quarter, and finished near $80 per barrel. Natural gas prices declined nearly 10% during the quarter, which is not typical for the winter months. The Oklahoma rig count totaled 69 active rigs at year end 2022 but decreased slightly to 59 active rigs by the end of the first quarter of 2023. The national rig count declined at a similar rate.

Oklahoma's economy remains strong. The state's unemployment rate of 3.1% is below the national average and has remained low since the onset of the COVID-19 pandemic. Gross tax receipts are up slightly compared to the same month last year. Adequate economic activity should positively impact our customer base's repayment ability and asset values. Agriculture real estate values remain stable as well but are being closely monitored.

Climate risk has evolved over time along with many improvements made by the agricultural sector to address potential climate changes such as global warming and increasingly arid conditions. These improvements in farming practices, seed genetics, rotational grazing, and soil aeration have mitigated some of the impact of climate change throughout the agricultural sector. Agricultural producers continue to adjust to these conditions and have implemented additional practices such as no-till planting, minimal till practices, cover crops, and other water conservation techniques to manage reduced amounts of rainfall and to keep their farm and ranch land in a state of sustainable production. Therefore, at the present time, the impact to credit risk and collateral values has been manageable, as evidenced by increasing real estate values across our territory. If severe climatic changes continue, there could be a negative effect upon real estate values.

LOAN PORTFOLIO

Loans outstanding at March 31, 2023 totaled $1.96 billion, an increase of $89.3 million, or 4.8%, from loans of $1.87 billion at December 31, 2022. The increase in loans was due to increased participations purchased for diversification and growth.

Overall, the credit quality of our loan portfolio remained sound during the first three months of 2023, with credit quality ratios declining slightly and nonaccrual balances increasing $10.2 million since December 31, 2022.

OTHER PROPERTY OWNED

Other property owned is real or personal property that has been acquired through foreclosure, deed in lieu of foreclosure, or other means. We had other property owned of $38 thousand at March 31, 2023 compared with $47 thousand at December 31, 2022.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2023, was $7.4 million, an increase of $7 thousand, or 0.1%, from the same period ended one year ago. The increase was primarily due to higher net interest income, offset by an increase in provision for credit losses and higher noninterest expense.

Net interest income for the three months ended March 31, 2023, was $13.4 million, an increase of $1.3 million, or 10.8%, compared with the three months ended March 31, 2022. Interest rate spread decreased by 15 basis points. Interest income increased as a result of an increase in borrower rates and an increase in average loan volume growth of 7.7%. Interest expense increased due to an increase in rates and an average volume increase in debt to CoBank of 7.8%. Net interest margin increased 8 basis points, due to a $1.3 million return on our own capital.

For the three months ended March 31, 2023, the Association recognized a $1.2 million provision for credit losses, an increase of $583 thousand, or 95.3%, from the provision for credit losses for the same period ended one year ago. The majority of the increase was attributable to a $1.5 million increase in specific reserve for two large participation borrowers compared to no such provision during first quarter 2022 and a $57 thousand decrease in net recoveries. There were no charge-offs or recoveries during the first quarter 2023. These increases were partially offset by a $773 thousand decrease in the general allowance due to the improvement in loss rates and a decrease in the management adjustment. The change in reserve for unfunded commitments was the result of a decrease of $211 thousand because of a $116 thousand reversal of credit losses for the three months ended March 31, 2023 compared to a $96 thousand provision for credit losses for the same period ended one year ago.

Noninterest income decreased $54 thousand during the first three months of 2023 compared with the first three months in 2022, primarily due to a $127 thousand decrease in other noninterest income offset by a $99 thousand increase in loan fees for participation fees, appraisal fees, and miscellaneous fees. The decrease of $13 thousand in patronage income from CoBank is the result of additional patronage of $144 thousand paid in 2022 primarily due to CoBank growth, nearly offset by higher patronage in 2023 due to higher direct note volume. The decrease in other noninterest income is primarily due to the gain of $28 thousand on the sale of vehicles and our portion of FCS Association Captive Insurance Company allocated earnings during the first quarter of 2022 only.

Mineral income of $230 thousand was recognized during the first three months of 2023. Of this amount, $227 thousand was received from CoBank. The decrease for the three months ended March 31, 2023 compared with the first three months of 2022 is due to lower commodity prices paid on production.

During the first three months of 2023, noninterest expense increased $657 thousand to $7.2 million, primarily due to merit increases, pension expense, Farm Credit System Insurance Corporation (FCSIC) premiums, fees paid to AgVantis and other professional service providers, and lower deferred costs related to lower loan origination activity than in the prior year. FCSIC premiums increased $127 thousand for the three months ended March 31, 2023 compared with the same period in 2022 due primarily to an increase in the insurance premium accrual assessment rate on Systemwide adjusted insured debt from 16 basis points to 18 basis points. The increase in our loan volume has also affected the increase in FCSIC expense.

CAPITAL RESOURCES

Our shareholders' equity at March 31, 2023, was $352.0 million, an increase of $7.7 million since December 31, 2022. This increase is due to net income of $7.4 million and a $321 thousand adjustment upon adoption of the new standard on current expected credit losses (CECL), offset by net stock retirements.

OKLAHOMA AGCREDIT

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.

At March 31, 2023, our Association did not hold any legacy LIBOR indexed loans in our core portfolio and these developments did not have a material impact on the Association and our borrowers. We have adopted a transition plan to reduce LIBOR exposures and to stop the inflow of new LIBOR volume. 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. All exposure to LIBOR is related to our participations purchased portfolio.

CHANGES IN MANAGEMENT

Our President/CEO, Patrick Zeka, resigned March 31, 2023. The Board of Directors appointed the current Chief Credit Officer, Steve Davenport, to serve as Acting CEO and Chief Credit Officer until a replacement is selected.

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.

//signature on file//

Lisa Cochell
Chairwoman of the Audit Committee
May 5, 2023

//signature on file//

Steve Davenport
Acting CEO
May 5, 2023

//signature on file//

Malinda Thimmesch
CFO
May 5, 2023

OKLAHOMA AGCREDIT

Consolidated Statement of Condition

(Dollars in Thousands)

	March 31 2023 UNAUDITED	December 31 2022 AUDITED
ASSETS		
Loans	**$ 1,959,855**	$ 1,870,507
Less allowance for loan losses	**4,339**	3,547
Net loans	**1,955,516**	1,866,960
Cash	**1,101**	3,290
Accrued interest receivable	**22,605**	20,421
Investment in CoBank, ACB	**46,983**	46,913
Investment in AgDirect	**3,416**	4,087
Premises and equipment, net	**16,627**	16,790
Other property owned	**38**	47
Prepaid benefit expense	**10,299**	10,508
Other assets	**4,983**	14,620
Total assets	**$ 2,061,568**	$ 1,983,636
LIABILITIES		
Note payable to CoBank, ACB	**$ 1,678,783**	$ 1,605,622
Advance conditional payments	**8,601**	7,382
Accrued interest payable	**4,615**	3,908
Patronage distributions payable	**13,023**	14,000
Accrued benefits liability	**290**	294
Deferred tax liability	**136**	60
Reserve for unfunded commitments	**453**	447
Other liabilities	**3,689**	7,683
Total liabilities	**1,709,590**	1,639,396
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Capital stock	**3,701**	3,714
Additional paid-in capital	**55,558**	55,558
Unallocated retained earnings	**292,719**	284,968
Total shareholders' equity	**351,978**	344,240
Total liabilities and shareholders' equity	**$ 2,061,568**	$ 1,983,636

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

	For the three months Ended March 31	
UNAUDITED	**2023**	2022
INTEREST INCOME		
Loans	**$ 26,026**	$ 17,409
Total interest income	**26,026**	17,409
INTEREST EXPENSE		
Note payable to CoBank, ACB	**12,625**	5,340
Other	**42**	10
Total interest expense	**12,667**	5,350
Net interest income	**13,359**	12,059
Provision for credit losses	**1,195**	612
Net interest income after provision for credit losses	**12,164**	11,447
NONINTEREST INCOME		
Financially related services income	**3**	2
Loan fees	**323**	224
Patronage distribution from Farm Credit institutions	**1,930**	1,943
Mineral income	**230**	244
Other noninterest income	**8**	135
Total noninterest income	**2,494**	2,548
NONINTEREST EXPENSE		
Salaries and employee benefits	**3,524**	3,367
Occupancy and equipment	**457**	387
Purchased services from AgVantis, Inc.	**1,033**	977
Farm Credit Insurance Fund premium	**711**	584
Supervisory and examination costs	**167**	135
Other noninterest expense	**1,334**	1,119
Total noninterest expense	**7,226**	6,569
Income before income taxes	**7,432**	7,426
Provision for income taxes	**2**	3
Net income	**7,430**	7,423
COMPREHENSIVE INCOME		
Amortization of retirement costs	**-**	40
Total comprehensive income	**$ 7,430**	$ 7,463

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

UNAUDITED	Capital Stock	Additional Paid-In Capital	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2021	$ 3,767	$ 55,558	$ 265,382	$ (163)	$ 324,544
Comprehensive income			7,423	40	7,463
Stock issued	96				96
Stock retired	(99)				(99)
Balance at March 31, 2022	$ 3,764	$ 55,558	$ 272,805	$ (123)	$ 332,004
Balance at December 31, 2022	$ 3,714	$ 55,558	$ 284,968	$ -	$ 344,240
Comprehensive income			7,430	-	7,430
Stock issued	53				53
Stock retired	(66)				(66)
Cumulative effect of CECL adoption			321		321
Balance at March 31, 2023	**$ 3,701**	**$ 55,558**	**$ 292,719**	**$ -**	**$ 351,978**

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

NOTES TO FINANCIAL STATEMENTS
Dollars in Thousands, Except as Noted
(Unaudited)

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Oklahoma AgCredit, 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	$ 3,547	$ (519)	$ 3,028
Liabilities:			
Allowance for credit losses on unfunded commitments	$ 447	$ 122	$ 569
Deferred tax liabilities	60	76	136
Retained earnings:			
Unallocated retained earnings, net of tax	$ 284,968	$ 321	$ 285,289

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) 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 losses is based on the difference between the fair value of the collateral less estimated costs to sell and the amortized cost basis of the loan.

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 loans 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 at origination. 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 that pool. The probability of default for each pool is based on the migration of loans from a performing state to a default state within that 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 a reasonable and supportable forecast period of 1 year. Subsequent to the forecast period, the institution reverts to long run historical loss experience beyond the 1-year 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 unemployment rates, real gross domestic product (GDP) levels, real consumer spending, government spending as a percentage of GDP, United States exports, inflation, and the federal funds rate, as well as agricultural commodity prices.

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 LOAN LOSSES

A summary of loans follows.

	March 31, 2023	December 31, 2022
Real estate mortgage	**$ 1,275,248**	$ 1,276,319
Production and intermediate-term	**249,706**	241,585
Agribusiness	**253,554**	216,686
Rural infrastructure	**153,255**	126,759
International	**27,661**	8,724
Rural residential real estate	**431**	434
Total Loans	**$ 1,959,855**	$ 1,870,507

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 balances of participations purchased and sold at March 31, 2023:

	Other Farm Credit Institutions	
	Purchased	Sold
Real estate mortgage	$ 40,808	$ 42,550
Production and intermediate-term	53,369	5,591
Agribusiness	250,835	-
Rural infrastructure	153,255	-
International	27,661	-
Total	$ 525,928	$ 48,141

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	December 31, 2022[1]
Real estate mortgage		
Acceptable	**98.37%**	98.27%
OAEM	**0.53%**	0.94%
Substandard	**1.10%**	0.79%
Total	**100.00%**	100.00%
Production and intermediate-term		
Acceptable	**97.52%**	97.65%
OAEM	**0.75%**	0.74%
Substandard	**1.73%**	1.61%
Total	**100.00%**	100.00%
Agribusiness		
Acceptable	**95.67%**	95.94%
OAEM	**1.94%**	2.28%
Substandard	**2.39%**	1.78%
Total	**100.00%**	100.00%
Rural infrastructure		
Acceptable	**99.51%**	99.11%
OAEM	**0.49%**	0.59%
Substandard	**-**	0.30%
Total	**100.00%**	100.00%
Rural residential real estate		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
International		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Total Loans		
Acceptable	**98.03%**	97.99%
OAEM	**0.73%**	1.04%
Substandard	**1.24%**	0.97%
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.

Nonperforming assets consist of nonaccrual loans and other property owned. The following table shows these nonperforming assets and related credit quality statistics as follows:

	March 31, 2023	December 31, 2022
Nonaccrual loans		
Real estate mortgage	**$ 9,615**	$ 5,139
Production and intermediate-term	**4,286**	750
Agribusiness	**6,060**	3,875
Total nonaccrual loans	**$ 19,961**	$ 9,764
Accruing restructured loans		
Real estate mortgage		$ 311
Production and intermediate-term		1
Total accruing restructured loans		$ 312
Other property owned	**38**	47
Total nonperforming assets[1]	**$ 19,999**	$ 10,123
Nonaccrual loans to total loans	**1.02%**	0.52%
Nonperforming assets[1] to total loans and other property owned	**1.02%**	0.54%
Nonperforming assets[1] to total shareholders' equity	**5.68%**	2.94%

[1] Prior to the adoption of CECL on January 1, 2023, nonperforming assets included accruing restructured loans and loans 90 days or more past due. At December 31, 2022, the Association had no accruing loans 90 days or more past due.

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:				
Real estate mortgage	**$ -**	**$ 9,615**	**$ 9,615**	**$ 123**
Production and intermediate-term	**3,318**	**968**	**4,286**	**-**
Agribusiness	**5,950**	**110**	**6,060**	**-**
Total	**$ 9,268**	**$ 10,693**	**$ 19,961**	**$ 123**

The following tables provide an age analysis of past due loans at amortized cost.

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	$ 5,671	$ -	$ 5,671	$ 1,269,577	$ 1,275,248	$ -
Production and intermediate-term	718	669	1,387	248,319	249,706	-
Agribusiness	2,694	111	2,805	250,749	253,554	-
Rural infrastructure	-	-	-	153,255	153,255	-
International	-	-	-	27,661	27,661	-
Rural residential real estate	-	-	-	431	431	-
Total	$ 9,083	$ 780	$ 9,863	$ 1,949,992	$ 1,959,855	$ -

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

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	$ 2,279	$ 296	$ 2,575	$ 1,288,416	$ 1,290,991	$ -
Production and intermediate-term	5,319	416	5,735	240,344	246,079	-
Agribusiness	-	126	126	217,466	217,592	-
Rural infrastructure	-	-	-	127,067	127,067	-
Rural residential real estate	-	-	-	436	436	-
International	-	-	-	8,763	8,763	-
Total	$ 7,598	$ 838	$ 8,436	$ 1,882,492	$ 1,890,928	$ -

Allowance for Credit 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	$ 1,058	$ (148)	$ 910	$ -	$ -	$ (5)	$ 905
Production and intermediate-term	552	(177)	375	-	-	812	1,187
Agribusiness	1,655	(445)	1,210	-	-	489	1,699
Rural infrastructure	279	254	533	-	-	15	548
International	3	(3)	-	-	-	-	-
Total	$ 3,547	$ (519)	$ 3,028	$ -	$ -	$ 1,311	$ 4,339

	Balance at December 31, 2021	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at March 31, 2022
Real estate mortgage	$ 888	$ -	$ -	$ 29	$ 917
Production and intermediate-term	631	49	106	(38)	650
Agribusiness	1,924	-	-	523	2,447
Rural infrastructure	159	-	-	2	161
Rural residential real estate	1	-	-	-	1
International	3	-	-	-	3
Total	$ 3,606	$ 49	$ 106	$ 516	$ 4,179

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

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	$ 447
Cumulative Effect of CECL Adoption	122
Balance at January 1, 2023	569
Reversal of reserve for unfunded commitments	(116)
Total	$ 453

	For the Three Months Ended March 31, 2022
Balance at December 31, 2021	$ 539
Provision for reserve for unfunded commitments	96
Total	$ 635

The following table shows 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:

	Combination – Interest Rate Reduction and Term or Payment Extension	
	For the Three Months Ended March 31, 2023	% of Total Loans
Real estate mortgage	**$ 1,880**	0.15%

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty as of the three months ended March 31, 2023 was $11 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:

	Weighted-Average Term Extension (in days)
	For the Three Months Ended March 31, 2023
Real estate mortgage	334

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 Past Three Months		
	Current	30-89 Days Past Due	90 Days or More Past Due
Real estate mortgage	$ 1,880	$ -	$ -
Total	$ 1,880	$ -	$ -

Additional commitments to lend to borrowers experiencing financial difficulty whose loans have been modified were $34 thousand at March 31, 2023.

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

There were no loans modified as part of a troubled debt restructuring during the three-month period ended March 31, 2022. Of loans modified as troubled debt restructurings within the twelve months ended March 31, 2022, none defaulted during the three-month period ended March 31, 2022. There were no additional commitments to lend to borrowers whose loans were modified in a troubled debt restructuring at December 31, 2022.

The following table provides information on outstanding loans restructured in troubled debt restructurings:

	Loans modified as TDRs December 31, 2022	TDRs in Nonaccrual Status* December 31, 2022
Real estate mortgage	$ 2,007	$ 1,696
Production and intermediate-term	14	13
Total	$ 2,021	$ 1,709

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

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 follows.

	As of March 31, 2023	As of December 31, 2022	Regulatory Minimums	Capital Conservation Buffer	Total
Risk Adjusted:					
Common equity tier 1 ratio	**14.53%**	14.87%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**14.53%**	14.87%	6.0%	2.5%	8.5%
Total capital ratio	**14.71%**	15.08%	8.0%	2.5%	10.5%
Permanent capital ratio	**14.55%**	14.90%	7.0%	-	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**15.15%**	15.64%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**14.96%**	15.44%	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.

The following tables present the activity in the accumulated other comprehensive loss, net of tax by component:

	For the Three Months Ended March 31	
	2023	2022
Pension and other benefit plans:		
Beginning balance	**$ -**	$ (163)
Amounts reclassified from accumulated other comprehensive loss	**-**	40
Net current period other comprehensive income	**-**	40
Ending balance	**$ -**	$ (123)

The Association's participation in the non-qualified defined benefit Pension Restoration Plan terminated after December 31, 2022.

The following table represents reclassifications out of accumulated other comprehensive loss.

	Amount Reclassified from Accumulated Other Comprehensive Loss		Location of Gain/Loss Recognized in Statement of Income
	For the Three Months Ended March 31		
	2023	2022	
Pension and other benefit plans:			
Net actuarial loss	**$ -**	$ 40	Salaries and employee benefits
Total reclassifications	**$ -**	$ 40	

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			Total Fair Value
	Level 1	Level 2	Level 3	
Assets held in nonqualified benefits trusts				
March 31, 2023	**$ 493**	**$ -**	**$ -**	**$ 493**
December 31, 2022	$ 432	$ -	$ -	$ 432

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			Total Fair Value
	Level 1	Level 2	Level 3	
March 31, 2023				
Loans	**$ -**	**$ -**	**$ 7,045**	**$ 7,045**
Other property owned	**-**	**-**	**45**	**45**
December 31, 2022				
Loans	$ -	$ -	$ 2,956	$ 2,956
Other property owned	-	-	56	56

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. The Association utilizes appraisals or other market-based information 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 of the 2022 Annual Report to Shareholders, accounting guidance establishes a fair value hierarchy, which requires an Association 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 loans have fair value measurements that fall within Level 3 of the fair value 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.

Other Property Owned

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

NOTE 5 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through May 5, 2023, which is the date the financial statements were issued, and no material subsequent events were identified.