AG NEW MEXICO, FARM CREDIT SERVICES, ACA

2023
Quarterly Report
Third Quarter

For the Quarter Ended September 30, 2023

REPORT OF MANAGEMENT

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

Brett Valentine, Chief Executive Officer

November 9, 2023

Linda Brown, Chairman, Board of Directors

November 9, 2023

Will Fisher, Chief Financial Officer

November 9, 2023

Third Quarter 2023 Financial Report

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AG NEW MEXICO, FARM CREDIT SERVICES, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Ag New Mexico, Farm Credit Services, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended September 30, 2023. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2022 Annual Report to Stockholders.

The Association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

Significant Events

Effective November 19, 2022, the Association signed a letter of intent to pursue a merger transaction with Lone Star AgCredit, ACA (Lone Star AgCredit). On September 11, 2023, the Association and Lone Star AgCredit were granted "preliminary approval" for the merger by the Farm Credit Administration (FCA). Each Association is holding a special meeting of stockholders on October 25, 2023 for its voting stockholders to vote on the merger. The merger is conditioned on a favorable vote of each Association's voting stockholders and FCA granting final approval of the merger. The proposed effective date for the merger is December 1, 2023 or such later date agreed by the associations and approved by FCA.

The U.S. Bureau of Labor Statistics indicated that the U.S. unemployment rate remained steady month-over-month at 3.8 percent in September 2023. On September 26, 2023, New Mexico reported an unemployment rate of 3.7 percent for August 2023.

The Consumer Price Index for All Urban Consumers increased by 3.7 percent for the 12-month period ending September 2023, well above the long-term target of approximately 2.0 percent. However, recent inflation rates represent significant declines from the four-decade high of 9.1 percent reached in June 2022. The Federal Open Market Committee (FOMC) decided to keep the target Federal funds rate constant within the 5.25–5.50 percent range in September 2023, after raising the rate by 25 basis points in July 2023 for a total increase of about 525 basis points since mid-March 2022. The FOMC stated that it remains strongly committed to returning inflation to its 2 percent objective while achieving maximum employment.

On September 28, 2023, the U.S. Bureau of Economic Analysis (BEA) released its third estimate of real gross domestic product (GDP) for the second quarter of 2023. U.S. real GDP growth reached 2.1 percent during the second quarter of 2023, down from 2.2 percent during the first quarter of 2023.

The October 2023 edition of the USDA World Agricultural Supply and Demand Estimates (WASDE) report states that farmers are expected to receive lower average farm prices for corn (-24.3 percent), wheat (-17.3 percent), soybeans (-9.2 percent), and cotton (-5.7 percent) in the 2023/24 marketing year compared to the previous season. Similarly, after rising nearly 37.0 percent in 2022, the average price received by farmers for all milk is projected to decrease by about 18.3 percent year-over-year in 2023 and by 0.7 percent in 2024. USDA projected average steer prices (5-Area, Direct) will increase year-over-year by about 22.8 percent in 2023, while broiler and barrow and gilt prices are projected to decline by about 11.7 percent and 16.2 percent, respectively. USDA also projected higher average prices for steers and barrows and gilts in 2024 but lower prices for broilers.

The Federal Reserve Bank of Dallas released its third-quarter Eleventh District (i.e., Texas, southern New Mexico and northern Louisiana) Agricultural Survey on October 2, 2023. Survey respondents noted overall weaker conditions across most regions, as extremely dry conditions are straining agricultural production. According to survey respondents, demand for agricultural loans decreased during the third quarter of 2023 for the seventh straight quarter. Respondents also reported a net tightening of credit standards for agricultural loans relative to the same period in the previous year.

During the third quarter of 2023, the New Mexico agriculture economy remained sound. Moisture and precipitation varied across the state, with most of state considered to be in a drought.

Loan Portfolio

Total loans outstanding at September 30, 2023, including nonaccrual loans and sales contracts, were $387,397,287 compared to $387,235,937 at December 31, 2022, reflecting an increase of 0.04 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.9 percent at September 30, 2023, compared to 0.5 percent at December 31, 2022.

The Association did not record any recoveries or charge-offs for the quarter ended September 30, 2023. The Association recorded $1,050 in recoveries and no charge-offs for the same period in 2022. The Association's allowance for loan losses was 0.6 percent and 0.2 percent of total loans outstanding as of September 30, 2023, and December 31, 2022, respectively.

Risk Exposure

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the Association's components and trends of high-risk assets.

	September 30, 2023		December 31, 2022	
	Amount	**%**	Amount	%
Nonaccrual	**$3,298,654**	**99.8%**	$ 1,751,114	87.6%
90 days past due and still accruing interest	**606,834**	**0.1%**	245,293	12.3%
Other property owned, net	**2,775**	**0.1%**	2,775	0.1%
Total	**$3,908,263**	**100.0%**	$ 1,999,182	100.0%

Results of Operations

The Association had net income of $1,050,687 and $3,827,628 for the three and nine months ended September 30, 2023, as compared to net income of $1,045,870 and $3,590,998 for the same period in 2022, reflecting increases of 0.5 percent and 6.6 percent, respectively. Net interest income was $2,455,602 and $7,258,141 for the three and nine months ended September 30, 2023, compared to $2,243,468 and $6,083,763 for the same period in 2022.

	Nine Months Ended			
	September 30, 2023		September 30, 2022	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 383,765,887**	**$ 18,417,134**	$ 346,062,619	$ 10,922,474
Interest-bearing liabilities	**341,933,918**	**11,158,993**	309,841,884	4,838,711
Impact of capital	**$ 41,831,969**		$ 36,220,735	
Net interest income		**$ 7,258,141**		$ 6,083,763

	2023 Average Yield	2022 Average Yield
Yield on loans	**6.42%**	4.22%
Cost of interest-bearing liabilities	**4.36%**	2.09%
Interest rate spread	**2.06%**	2.13%
Net interest income as a percentage of average earning assets	**2.53%**	2.35%

	Nine months ended: September 30, 2023 vs. September 30, 2022		
	Increase due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 1,189,983**	**$ 6,304,677**	**$ 7,494,660**
Interest expense	**501,160**	**5,819,122**	**6,320,282**
Net interest income	**$ 688,823**	**$ 485,555**	**$ 1,174,378**

Interest income for the three and nine months ended September 30, 2023, increased by $2,015,191 and $7,494,660, or 44.9 percent and 68.6 percent respectively, from the same period of 2022, primarily due to increases in yields on earning assets and an increase in average loan volume. Interest expense for the three and nine months ended September 30, 2023, increased by $1,803,057 and $6,320,282, or 80.3 percent and 130.6 percent, from the same period of 2022 due to an increase in interest rates and an increase in average debt volume. Average loan volume for the third quarter of 2023 was $383,765,887, compared to $346,602,619 in the third quarter of 2022. The average net interest rate spread on the loan portfolio for the third quarter of 2023 was 2.05 percent, compared to 2.13 percent in the third quarter of 2022.

The Association's return on average assets for the nine months ended September 30, 2023, was 1.27 percent compared to 1.31 percent for the same period in 2022. The Association's return on average equity for the nine months ended September 30, 2023, was 9.10 percent, compared to 9.19 percent for the same period in 2022.

Liquidity and Funding Sources

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the Bank), which obtains its funds through the issuance of System-wide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	September 30, 2023	December 31, 2022
Note payable to the Bank	**$ 343,785,377**	$ 341,738,541
Accrued interest on note payable	**1,333,043**	1,121,629
Total	**$ 345,118,420**	$ 342,860,170

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2026. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $343,785,377 as of September 30, 2023, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 4.68 percent at September 30, 2023. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2022, is due to the Association's increase in loan volume. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $43,569,138 at September 30, 2023. The maximum amount the Association may borrow from the Bank as of September 30, 2023, was $393,313,382 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2026, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

Capital Resources

The Association's capital position increased by $2,848,340 at September 30, 2023, compared to December 31, 2022. The Association's ratio of debt to members' equity was 6.02:1 as of September 30, 2023, compared to 6.36:1 as of December 31, 2022.

Farm Credit Administration regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of September 30, 2023, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements

Refer to Note 1 – "Organization and Significant Accounting Policies" in this quarterly report for disclosures of recent accounting pronouncements which may impact the Association's consolidated financial position and results of operations and for critical accounting policies.

Relationship With the Farm Credit Bank of Texas

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2022 Annual Report of Association more fully describe the Association's relationship with the Bank.

The annual and quarterly stockholder reports of the Bank are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. The annual and quarterly stockholder reports for the Bank are also available on its website at *www.farmcreditbank.com.*

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Ag New Mexico, Farm Credit Services, ACA, 4501 N. Prince St., Clovis New Mexico, 88101 or calling (575) 762-3828. The annual and quarterly stockholder reports for the Association are also available on its website at *www.agnewmexico.com.* Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *will.fisher@agnewmexico.com*

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED BALANCE SHEETS

	September 30, 2023 (unaudited)	December 31, 2022
ASSETS		
Loans	$ **387,397,287**	$ 387,235,937
Less: allowance for credit losses on loans	**2,356,277**	893,695
Net loans	**385,041,010**	386,342,242
Accrued interest receivable	**7,621,076**	5,709,255
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**8,519,530**	8,725,345
Other	**2,366,107**	778,383
Deferred taxes, net	**401,736**	343,146
Other property owned, net	**2,775**	2,775
Premises and equipment, net	**1,422,088**	544,947
Other assets	**769,150**	2,722,506
Total assets	$ **406,143,472**	$ 405,168,599
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	$ **343,785,377**	$ 341,738,541
Advance conditional payments	**213,576**	1,839,428
Accrued interest payable	**1,333,043**	1,121,629
Drafts outstanding	**15,726**	44,597
Patronage distributions payable	**-**	830,000
Other liabilities	**2,913,366**	4,560,360
Total liabilities	**348,261,088**	350,134,555
MEMBERS' EQUITY		
Capital stock and participation certificates	**403,805**	416,105
Unallocated retained earnings	**57,559,897**	54,695,891
Accumulated other comprehensive loss	**(81,318)**	(77,952)
Total members' equity	**57,882,384**	55,034,044
Total liabilities and members' equity	$ **406,143,472**	$ 405,168,599

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2023	2022	**2023**	2022
INTEREST INCOME				
Loans	**$ 6,503,543**	$ 4,488,352	**$ 18,417,134**	$ 10,922,474
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**4,047,941**	2,244,884	**11,158,993**	4,838,711
Net interest income	**2,455,602**	2,243,468	**7,258,141**	6,083,763
PROVISION FOR LOAN LOSSES	**58,885**	100,225	**512,615**	130,274
Net interest income after provision for loan losses	**2,396,717**	2,143,243	**6,745,526**	5,953,489
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**621,419**	868,292	**2,508,038**	2,551,925
Loan fees	**33,052**	32,009	**123,212**	100,281
Financially related services income	**188**	507	**188**	1,067
Gain on sale of premises and equipment, net	**27,000**	-	**110,500**	559,310
Other noninterest income	**3,080**	31,189	**231,144**	187,901
Total noninterest income	**684,739**	931,997	**2,973,082**	3,400,484
NONINTEREST EXPENSES				
Salaries and employee benefits	**970,472**	1,001,388	**2,870,799**	3,063,813
Directors' expense	**75,601**	66,408	**188,346**	168,095
Purchased services	**104,677**	114,096	**311,417**	330,809
Travel	**58,180**	67,021	**201,794**	194,281
Occupancy and equipment	**452,717**	362,746	**1,307,652**	959,688
Communications	**12,852**	17,770	**45,301**	51,645
Advertising	**(259)**	10,129	**9,117**	26,920
Public and member relations	**50,897**	63,346	**75,856**	81,368
Supervisory and exam expense	**34,559**	33,360	**103,675**	100,078
Insurance Fund premiums	**158,126**	160,258	**467,848**	458,133
Loss on other property owned, net	**165**	75	**2,076**	1,857
Other noninterest expense	**123,528**	132,773	**365,589**	326,188
Total noninterest expenses	**2,041,515**	2,029,370	**5,949,470**	5,762,875
Income before income taxes	**1,039,941**	1,045,870	**3,769,138**	3,591,098
(Benefit from) provision for income taxes	**(10,746)**	-	**(58,490)**	100
NET INCOME	**1,050,687**	1,045,870	**3,827,628**	3,590,998
Other comprehensive income:				
Change in postretirement benefit plans	**(1,122)**	5,586	**(3,366)**	16,758
COMPREHENSIVE INCOME	**$ 1,049,565**	$ 1,051,456	**$ 3,824,262**	$ 3,607,756

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2021	$ 411,220	$ 50,443,896	$ (501,053)	$ 50,354,063
Comprehensive income	-	3,590,998	16,758	3,607,756
Capital stock/participation certificates and allocated retained earnings issued	32,400	-	-	32,400
Preferred Stock retired				
Capital stock/participation certificates and allocated retained earnings retired	(23,800)	-	-	(23,800)
Balance at September 30, 2022	$ 419,820	$ 54,034,894	$ (484,295)	$ 53,970,419
Balance at December 31, 2022	$ 416,105	$ 54,695,891	$ (77,952)	$ 55,034,044
Cumulative effect of change in accounting principle (Note 1)	-	(963,622)	-	(963,622)
Balance at January 1, 2023	416,105	53,732,269	(77,952)	54,070,422
Comprehensive income	-	3,827,628	(3,366)	3,824,262
Capital stock/participation certificates and allocated retained earnings issued	11,000	-	-	11,000
Preferred Stock retired				
Capital stock/participation certificates and allocated retained earnings retired	(23,300)	-	-	(23,300)
Balance at September 30, 2023	**$ 403,805**	**$ 57,559,897**	**$ (81,318)**	**$ 57,882,384**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Ag New Mexico, Farm Credit Services, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves all counties in the state of New Mexico with the exception on San Juan County and the portion of Rio Arriba County lying west of the Continental Divide. The PCA and FLCA subsidiaries are also authorized to operate in Cochran County, Texas. In addition, the Association and Farm Credit Services of New Mexico, ACA have entered into an agreement that allows the Association to make mortgage loans in New Mexico, on a statewide basis, without obtaining territorial approval. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

Effective November 19, 2022, the Association signed a letter of intent to pursue a merger transaction with Lone Star AgCredit, ACA (Lone Star AgCredit). On September 11, 2023, the Association and Lone Star AgCredit were granted "preliminary approval" for the merger by the Farm Credit Administration (FCA). Each Association is holding a special meeting of stockholders on October 25, 2023 for its voting stockholders to vote on the merger. The merger is conditioned on a favorable vote of each Association's voting stockholders and FCA granting final approval of the merger. The proposed effective date for the merger is December 1, 2023 or such later date agreed by the associations and approved by FCA.

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 Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP requires a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements 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 Stockholders. 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 Stockholders. 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.

In March 2022, the Financial Accounting Standards Board (FASB) issued an update entitled, "Financial Instruments - Credit Losses: Troubled Debt Restructurings and Vintage Disclosures." The guidance eliminates the accounting guidance for troubled debt restructurings (TDRs) by creditors while enhancing disclosure requirements for certain loan refinancing and restructurings when a borrower is experiencing financial difficulty. The creditor will have to apply the guidance to determine whether a modification results in a new loan or a continuation of an existing loan. In addition to the TDR guidance, the update requires public business entities to disclose current period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of the credit losses standard. These amendments became effective for the Association at the time of adoption of the measurement of credit losses on financial instruments standard on January 1, 2023.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a single allowance framework for financial assets carried at amortized cost, which reflects management's estimate of expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to held-to maturity securities and depending on the situation available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers including this Association, this guidance became effective for interim and annual reporting periods beginning after December 15, 2022.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended September 30, 2023, are not necessarily indicative of the results to be expected for the year ended December 31, 2023. Certain amounts in the prior period's financial statements may have been reclassified to conform to current financial statement presentation.

Recently Adopted Accounting Pronouncements

The Association adopted Financial Accounting Standards Board (FASB) guidance entitled "Measurement of Credit Losses on Financial Instruments" and other subsequently issued accounting standards updates related to credit losses 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. In addition, the guidance amends existing impairment guidance for held-to-maturity and available-for-sale investments to incorporate an allowance for credit losses related to these securities, which will allow for the reversal of credit impairments in the event that the credit of an issuer improves.

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

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	$ 893,695	$ 942,222	$ 1,835,917
Deferred tax assets	343,146	49,228	392,374
Liabilities:			
Allowance for credit losses on unfunded commitments	46,323	21,401	67,724
Retained earnings:			
Unallocated retained earnings, net of tax	54,695,891	(963,622)	53,732,269

Loans and Allowance for Credit Losses

Loans are generally carried at their principal amount outstanding adjusted for charge-offs, deferred loan fees or costs, and valuation adjustments relating to hedging activities. Loan origination fees and direct loan origination costs are netted and capitalized, 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 be collected according to the original contractual terms and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is modified or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

Consistent with prior practice, loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection), circumstances indicate that collection of principal and interest is in doubt or legal action, including foreclosure or other forms of collateral conveyance, has been initiated to collect the outstanding principal and interest. At the time a loan is placed in nonaccrual status, accrued interest that is considered uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (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 and investment securities in accrued interest receivable and not as part of loans or investments on the Consolidate Balance Sheet. 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 the 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.

Purchased Credit Deteriorated Loans (PCD)

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

Allowance for Credit Losses

Beginning January 1, 2023, the allowance for credit losses (ACL) represents the estimated current expected credit losses over the remaining contractual life of financial assets measured at amortized cost and certain off-balance sheet credit exposures. The ACL takes into consideration relevant information about past events, current conditions and reasonable and supportable macroeconomic forecasts of future conditions. The contractual term excludes expected extensions, renewals and modifications unless the extension or renewal options are not unconditionally cancellable. The ACL comprises:

- the allowance for credit losses on loans (ACLL)
- the allowance for credit losses on unfunded commitments, which is presented on the balance sheet in other liabilities, and
- the allowance for credit losses on investment securities, which covers held-to-maturity and available-for-sale securities and is recognized within each investment securities classification on the Consolidated Balance Sheet.

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 hedge accounting 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 components of the ACLL 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, credit quality rating, delinquency category or business segment or a combination of these classes. 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, based on the migration of loans from performing to loss by credit quality rating or delinquency buckets using historical life-of-loan analysis periods for loan types, and the severity of loss, based on the aggregate net lifetime losses incurred per loan pool.

The 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 multiple scenarios over reasonable and supportable forecast period of two years. Subsequent to the forecast period, the Association reverts to long run historical loss experience beyond the two years on a straight-line basis over a one-year reversion period 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 levels and corporate bond spreads, as well as net farm income and agricultural commodity prices. Also considered are loan and borrower characteristics, such as internal risk ratings, delinquency status, collateral type, and the remaining term of the loan, adjusted for expected prepayments.

In addition to the quantitative calculation, the Association 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 were considered, including economic conditions, collateral values, borrowers' financial conditions, loan portfolio composition and prior loan loss experience. The allowance for loan losses encompassed various judgments, evaluations and appraisals with respect to the 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 were 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 Balance Sheet. 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 are recorded for commitments that are unconditionally cancellable.

NOTE 2 — LOANS AND ALLOWANCE FOR CREDIT LOSSES:

A summary of loans follows:

Loan Type	**September 30, 2023**	December 31, 2022
Production agriculture:		
Real estate mortgage	**$ 220,775,922**	$ 222,085,341
Production and intermediate-term	**75,801,635**	72,041,884
Agribusiness:		
Processing and marketing	**40,822,094**	42,502,119
Farm-related business	**19,739,683**	22,551,410
Loans to cooperatives	**7,844,074**	8,055,180
Communication	**6,695,730**	6,558,190
Water and waste-water	**4,628,017**	4,058,248
International	**4,061,504**	2,699,235
Energy	**3,816,128**	3,139,975
Rural residential real estate	**1,834,420**	1,976,816
Lease receivables	**1,378,080**	1,567,539
Total	**$ 387,397,287**	$ 387,235,937

The Association purchases or 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 September 30, 2023:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Agribusiness	$ 49,295,029	$ 5,956,286	$ -	$ 1,282,829	$ 49,295,029	$ 7,239,115
Real estate mortgage	23,435,108	40,745,923	-	-	23,435,108	40,745,923
Production and intermediate-term	17,063,908	42,277,838	-	-	17,063,908	42,277,838
Communication	6,695,730	-	-	-	6,695,730	-
Water and waste-water	4,628,017	-	-	-	4,628,017	-
International	4,061,504	-	-	-	4,061,504	-
Energy	3,816,128	-	-	-	3,816,128	-
Lease receivables	1,378,080	-	-	-	1,378,080	-
Rural residential real estate	-	3,935,911	-	-	-	3,935,911
Total	$ 110,373,504	$ 92,915,958	$ -	$ 1,282,829	$ 110,373,504	$ 94,198,787

The Association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest may be paid by the Association on such balances. Balances of ACPs were $213,576 and $1,839,428 at September 30, 2023, and December 31, 2022, respectively.

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 percent of the original appraised value of the property taken as security or up to 97 percent 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 borrower or the loan is classified nonaccrual. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses and risks in a particular relationship. The Association 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, or collateral pledged on the loan,
- doubtful — assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable, and
- loss — assets are considered uncollectible.

The following table shows loans under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans by loan type:

	September 30, 2023	December 31, 2022
Real estate mortgage		
Acceptable	**99.3** %	98.4 %
OAEM	**0.4**	1.3
Substandard/doubtful	**0.3**	0.3
	100.0	100.0
Production and intermediate-term		
Acceptable	**92.7**	99.7
OAEM	**3.2**	-
Substandard/doubtful	**4.1**	0.3
	100.0	100.0
Processing and maketing		
Acceptable	**87.8**	88.4
OAEM	**12.2**	0.8
Substandard/doubtful	**-**	10.8
	100.0	100.0
Farm-related business		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Loans to cooperatives		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Energy		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Communication		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Rural residential real estate		
Acceptable	**93.4**	95.3
OAEM	**-**	-
Substandard/doubtful	**6.6**	4.7
	100.0	100.0
International		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Water/waste-water		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Lease receivables		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Total loans		
Acceptable	**96.9**	97.7
OAEM	**2.1**	0.8
Substandard/doubtful	**1.0**	1.5
	100.0 %	100.0 %

Accrued interest receivable on loans of $7,621,076 and $5,709,255 at September 30, 2023 and December 31, 2022 have been excluded from the amortized cost of loans and reported separately in the Consolidated Balance Sheets.

The following table reflects nonperforming assets, which consist of nonaccrual loans, loans that are past due 90 days or more and still accruing interest, and other property owned and related credit quality statistics:

	September 30, 2023	December 31, 2022
Nonaccrual loans:		
Production and intermediate-term	**$ 3,101,589**	$ -
Real estate mortgage	**108,961**	120,117
Rural residential real estate	**88,104**	93,038
Agribusiness	**-**	1,537,959
Total nonaccrual loans	**3,298,654**	1,751,114
Accruing loans 90 days or more past due:		
Real estate mortgage	**606,834**	-
Production and intermediate-term	**-**	245,293
Total accruing loans 90 days or more past due	**606,834**	245,293
Other property owned	**2,775**	2,775
Total nonperforming assets	**$ 3,908,263**	$ 1,999,182
Nonaccrual loans as a percentage of total loans	**0.85%**	0.45%
Nonperforming assets as a percentage of total loans and other property owned	**1.01%**	0.52%
Nonperforming assets as a percentage of capital	**6.75%**	3.63%

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:

	September 30, 2023			**Interest Income Recognized**	
	Amortized Cost with Allowance	**Amortized Cost without Allowance**	**Total**	**For the Three Months Ended September 30, 2023**	**For the Nine Months Ended September 30, 2023**
Production and intermediate-term	$ 3,101,589	$ -	$ 3,101,589	$ -	$ 35,281
Real estate mortgage	-	108,961	108,961	-	-
Rural residential real estate	-	88,104	88,104	-	-
Agribusiness	-	-	-	-	63,284
Total nonaccrual loans	$ 3,101,589	$ 197,065	$ 3,298,654	$ -	$ 98,565

The following tables provide an aging analysis of past due loans at amortized cost by portfolio segment 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 Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 1,461,903**	**$ 606,834**	**$ 2,068,737**	**$ 218,707,185**	**$ 220,775,922**	**$ 606,834**
Production and intermediate term	**957,090**	**613,982**	**1,571,072**	**74,230,563**	**75,801,635**	**-**
Processing and marketing	**-**	**-**	**-**	**40,822,094**	**40,822,094**	**-**
Farm-related business	**-**	**-**	**-**	**19,739,683**	**19,739,683**	**-**
Loans to cooperatives	**-**	**-**	**-**	**7,844,074**	**7,844,074**	**-**
Communication	**-**	**-**	**-**	**6,695,730**	**6,695,730**	**-**
Water and waste-water	**-**	**-**	**-**	**4,628,017**	**4,628,017**	**-**
Internatinal	**-**	**-**	**-**	**4,061,504**	**4,061,504**	**-**
Energy	**-**	**-**	**-**	**3,816,128**	**3,816,128**	**-**
Rural residential real estate	**121,165**	**-**	**121,165**	**1,713,255**	**1,834,420**	**-**
Lease receivables	**-**	**-**	**-**	**1,378,080**	**1,378,080**	**-**
Total	**$ 2,540,158**	**$ 1,220,816**	**$ 3,760,974**	**$ 383,636,313**	**$ 387,397,287**	**$ 606,834**

Prior to the adoption of CECL, the aging analysis of past due loans reported 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 >90 Days and Accruing
Real estate mortgage	$ 138,382	$ -	$ 138,382	$ 225,899,019	$ 226,037,401	$ -
Production and intermediate term	-	245,293	245,293	72,977,769	73,223,062	245,293
Processing and marketing	464,958	119,341	584,299	42,186,263	42,770,562	-
Farm-related business	-	-	-	22,706,866	22,706,866	-
Loans to cooperatives	-	-	-	8,091,322	8,091,322	-
Communication	-	-	-	6,578,796	6,578,796	-
Water and waste-water	-	-	-	4,091,098	4,091,098	-
International	-	-	-	2,728,682	2,728,682	-
Energy	-	-	-	3,151,791	3,151,791	-
Rural residential real estate	194,434	-	194,434	1,790,689	1,985,123	-
Lease receivables	-	-	-	1,580,489	1,580,489	-
Total	$ 797,774	$ 364,634	$ 1,162,408	$ 391,782,784	$ 392,945,192	$ 245,293

A loan is considered collateral dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The collateral dependent loans are primarily real estate mortgage and rural residential real estate loans.

Allowance for Credit Losses

The credit risk rating methodology is a key component of the Association's allowance for credit losses evaluation and is generally incorporated into the Association's loan underwriting standards and internal lending limits. In addition, borrower and commodity concentration lending and leasing limits have been established by the Association to manage credit exposure. The regulatory limit to a single borrower or lessee is 15 percent of the Association's lending and leasing limit base but the Association's boards of directors have generally established more restrictive lending limits. This limit applies to associations with long-term and short-term and intermediate-term lending authorities, and to the Banks' (other than CoBank) loan participations.

Effective January 1, 2023, the Association adopted the CECL accounting guidance as described in Note 1. A summary of changes in the allowance for credit losses by portfolio segment are as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Water and Waste Water	Rural Residential Real Estate	International	Lease Receievables	Total
Allowance for Credit Losses on Loans[1]:										
Balance at June 30, 2023	$ 579,178	$ 933,987	$ 594,063	$ 117,554	$ 16,153	$ 17,149	$ 22,242	$ 1,007	$ 1,458	$ 2,282,791
Recoveries	-	-	-	-	-	-	-	-	-	-
Provision for (reversal of) loan losses	(32,309)	329,220	(239,356)	(14,593)	5,177	-	11,780	10	(1,044)	58,885
Other	27	10,088	(209)	2,740	81	1,859	-	15	-	14,601
Balance at September 30, 2023	$ 546,896	$ 1,273,295	$ 354,498	$ 105,701	$ 21,411	$ 19,008	$ 34,022	$ 1,032	$ 414	$ 2,356,277
Balance at December 31, 2022	$ 233,922	$ 208,510	$ 422,570	$ 5,466	$ 5,390	$ 5,656	$ 7,607	$ 4,123	$ 451	$ 893,695
Cumulative effect of a change in accounting principle	515,578	131,270	94,956	129,279	22,252	15,884	26,611	(3,311)	9,701	942,220
Balance at January 1, 2023	$ 749,500	$ 339,780	$ 517,526	$ 134,745	$ 27,642	$ 21,540	$ 34,218	$ 812	$ 10,152	$ 1,835,915
Recoveries	-	2,000	-	-	-	-	-	-	-	2,000
Provision for (reversal of) loan losses	(202,053)	940,043	(163,758)	(37,267)	(6,399)	(7,200)	(196)	(817)	(9,738)	512,615
Other	(551)	(8,528)	730	8,223	168	4,668	-	1,037	-	5,747
Balance at September 30, 2023	$ 546,896	$ 1,273,295	$ 354,498	$ 105,701	$ 21,411	$ 19,008	$ 34,022	$ 1,032	$ 414	$ 2,356,277
Balance at June 30, 2022	$ 176,819	$ 281,264	$ 479,016	$ 4,839	$ 3,308	$ 6,231	$ 10,693	$ 4,343	$ 577	$ 967,090
Recoveries	-	1,050	-	-	-	-	-	-	-	1,050
Provision for (reversal of) loan losses	1,292	144,157	(43,577)	428	1,251	(803)	(2,137)	(243)	(143)	100,225
Other	(842)	(567)	(2,058)	(25)	(21)	(26)	(40)	(19)	(2)	(3,600)
Balance at September 30, 2022	$ 177,269	$ 425,904	$ 433,381	$ 5,242	$ 4,538	$ 5,402	$ 8,516	$ 4,081	$ 432	$ 1,064,765
Balance at December 31, 2021	$ 99,729	$ 246,733	$ 354,498	$ 3,497	$ 211,020	$ 4,524	$ 7,941	$ 3,143	$ 416	$ 931,501
Recoveries	590	6,150	-	-	-	-	-	-	-	6,740
Provision for (reversal of) loan losses	76,963	173,047	79,476	1,752	(203,351)	855	576	940	16	130,274
Other	(13)	(26)	(593)	(7)	(3,131)	23	(1)	(2)	-	(3,750)
Balance at September 30, 2022	$ 177,269	$ 425,904	$ 433,381	$ 5,242	$ 4,538	$ 5,402	$ 8,516	$ 4,081	$ 432	$ 1,064,765
Allowance for Credit Losses on Unfunded Commitments:										
Balance at December 31, 2022	$ 580	$ 13,641	$ 29,763	$ 241	$ 1,190	$ 398	$ -	$ 510	$ -	$ 46,323
Cumulative effect of change in accounting principle	86	12,004	(20,267)	19,757	(929)	9,862	-	888	-	21,401
Balance at January 1, 2023	$ 666	$ 25,645	$ 9,496	$ 19,998	$ 261	$ 10,260	$ -	$ 1,398	$ -	$ 67,724
Provision for (reversal of) unfunded commitments	551	8,528	(730)	(8,223)	(168)	(4,668)	-	(1,037)	-	(5,747)
Balance at September 30, 2023	$ 1,217	$ 34,173	$ 8,766	$ 11,775	$ 93	$ 5,592	$ -	$ 361	$ -	$ 61,977
Total Allowance for Credit Losses	$ 548,113	$ 1,307,468	$ 363,264	$ 117,476	$ 21,504	$ 24,600	$ 34,022	$ 1,393	$ 414	$ 2,418,254
Balance at June 30, 2023	$ 1,244	$ 44,261	$ 8,557	$ 14,515	$ 174	$ 7,451	$ -	$ 376	$ -	$ 76,578
Provision for (reversal of) unfunded commitments	(27)	(10,088)	209	(2,740)	(81)	(1,859)	-	(15)	-	(14,601)
Balance at September 30, 2023	$ 1,217	$ 34,173	$ 8,766	$ 11,775	$ 93	$ 5,592	$ -	$ 361	$ -	$ 61,977
Total Allowance for Credit Losses	$ 548,113	$ 1,307,468	$ 363,264	$ 117,476	$ 21,504	$ 24,600	$ 34,022	$ 1,393	$ 414	$ 2,418,254

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

The Association did not materially modify any loans with borrowers experiencing financial difficulty as of September 30, 2023.

Troubled Debt Restructurings

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.

As of December 31, 2022, the Association had no troubled debt restructured loans.

NOTE 3 —LEASES:

The components of lease expense were as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2023	September 30, 2022	**September 30, 2023**	September 30, 2022
Operating lease cost	**$ 59,810**	$ 60,182	**$ 180,705**	$ 131,947
Net lease cost	**$ 59,810**	$ 60,182	**$ 180,705**	$ 131,947

Other information related to leases was as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2023	September 30, 2022	**September 30, 2023**	September 30, 2022
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	**$ 59,810**	$ 60,182	**$ 180,705**	$ 131,947
Right-of-use assets obtained in exchange for lease obligations:				
Operating leases	**56,886**	55,674	**170,536**	122,245

Lease term and discount rate are as follows:

	September 30, 2023	December 31, 2022
Weighted average remaining lease term in years		
Operating leases	**1.1**	1.9
Weighted average discount rate		
Operating leases	**2.42%**	3.38%

Future minimum lease payments under non-cancellable leases as of September 30, 2023, were as follows:

	Operating Leases
2023 (excluding the nine months ended 9/30/23)	$ 45,968
2024	174,353
2025	48,600
2026	-
Thereafter	-
Total	$ 268,921

NOTE 4 — CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the Association's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an Association's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

	September 30, 2023	December 31, 2022
Capital stock and participation certificates	**$ 403,805**	$ 416,105
Accumulated other comprehensive loss	**(81,318)**	(77,952)
Unallocated retained earnings[1]	**57,559,897**	54,695,891
Total Capital	**$ 57,882,384**	$ 55,034,044

[1] Unallocated retained earnings for the quarter ended September 30, 2023, reflects a decrease from the cumulative effect of a change in accounting principle for CECL on January 1, 2023.

Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Requirements Including Capital Conservation Buffers	As of September 30, 2023
Common equity tier 1 ratio	7.00%	12.54%
Tier 1 capital ratio	8.50%	12.54%
Total capital ratio	10.50%	13.16%
Permanent capital ratio	7.00%	12.61%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.00%	11.80%
UREE leverage ratio	1.50%	11.70%

The details for the amounts used in the calculation of the regulatory capital ratios as of September 30, 2023:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	**55,310,369**	**55,310,369**	**55,310,369**	**55,310,369**
Common Cooperative Equities:	-	-	-	-
Statutory minimum purchased borrower stock	**404,286**	**404,286**	**404,286**	**404,286**
Allowance for credit losses subject to certain limitations	-	-	**2,347,713**	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(8,594,610)**	**(8,594,610)**	**(8,594,610)**	**(8,594,610)**
	47,120,045	47,120,045	49,467,758	47,120,045
Denominator:				
Risk-adjusted assets excluding allowance	**384,422,327**	**384,422,327**	**384,422,327**	**384,422,327**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**(8,594,610)**	**(8,594,610)**	**(8,594,610)**	**(8,594,610)**
Allowance for credit losses on loans	-	-	-	**(2,271,783)**
	375,827,717	**375,827,717**	**375,827,717**	**373,555,934**

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	**55,310,369**	**55,310,369**
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	**404,286**	**-**
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	**(8,594,610)**	**(8,594,610)**
	47,120,045	**46,715,759**
Denominator:		
Total Assets	**409,739,757**	**409,739,757**
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	**(10,521,161)**	**(10,521,161)**
	399,218,596	**399,218,596**

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

		Accumulated Other Comprehensive Loss
Balance at June 30, 2023	**$**	**(80,196)**
Other comprehensive loss before reclassifications		**(1,122)**
Amounts reclassified from accumulated other comprehensive loss		**-**
Net current period other comprehensive loss		**(1,122)**
Balance at September 30, 2023	**$**	**(81,318)**
Balance at December 31, 2022	**$**	**(77,952)**
Other comprehensive loss before reclassifications		**(3,366)**
Amounts reclassified from accumulated other comprehensive loss		**-**
Net current period other comprehensive loss		**(3,366)**
Balance at September 30, 2023	**$**	**(81,318)**

		Accumulated Other Comprehensive Loss
Balance at June 30, 2022	$	(489,881)
Other comprehensive income before reclassifications		5,586
Amounts reclassified from accumulated other comprehensive loss		-
Net current period other comprehensive income		5,586
Balance at September 30, 2022	$	(484,295)
Balance at December 31, 2021	$	(501,053)
Other comprehensive income before reclassifications		16,758
Amounts reclassified from accumulated other comprehensive loss		-
Net current period other comprehensive income		16,758
Balance at September 30, 2022	$	(484,295)

The Association's accumulated other comprehensive loss relates entirely to its non-pension other postretirement benefits. Amortization of prior service credits and of actuarial loss are reflected in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive loss for the nine months ended September 30:

	2023	2022
Accumulated other comprehensive loss at January 1	**$ (77,952)**	$ (501,053)
Amortization of prior service credit included in salaries and employee benefits	**(3,366)**	(3,363)
Amortization of actuarial loss included in salaries and employee benefits	**-**	20,121
Other comprehensive (loss) income, net of tax	**(3,366)**	16,758
Accumulated other comprehensive loss at September 30	**$ (81,318)**	$ (484,295)

NOTE 5 — INCOME TAXES:

Ag New Mexico, Farm Credit Services, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Ag New Mexico, Farm Credit Services, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Ag New Mexico, Farm Credit Services, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the Association and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized.

NOTE 6 — FAIR VALUE MEASUREMENTS:

FASB 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 14 in the 2022 Annual Report to Stockholders for a more complete description.

Assets measured at fair value on a nonrecurring basis, which are fair value measurements that are triggered by particular circumstances such as impaired assets, for each of the fair value hierarchy values are summarized below. The Association did not have any liabilities measured at fair value on a nonrecurring basis.

September 30, 2023	**Fair Value Measurement Using**			**Total Fair Value**
	Level 1	**Level 2**	**Level 3**	
Assets:				
Loans*	**$ -**	**$ -**	**$ 2,264,356**	**$ 2,264,356**
Other property owned	**-**	**-**	**2,775**	**2,775**

December 31, 2022	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans*	$ -	$ -	$ 970,280	$ 970,280
Other property owned	-	-	2,775	2,775

*Represents the fair value of certain loans that were evaluated for impairment under the authoritative guidance "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs, as each collateral property is unique. System Associations utilize appraisals to value these loans and other property owned and take into account unobservable inputs, such as income and expense, comparable sales, replacement cost and comparability adjustments.

Valuation Techniques

As more fully discussed in Note 14 to the 2022 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see the 2022 Annual Report to Stockholders.

Loans Evaluated for Impairment

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

Other Property Owned

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

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of non-pension postretirement employee benefits for the three and nine months ended September 30:

Three months ended September 30:

	Other Benefits	
	2023	2022
Service cost	**$ 5,698**	$ 8,294
Interest cost	**17,172**	13,309
Amortization of prior service credits	**(1,122)**	(1,121)
Amortization of net actuarial loss	**-**	6,707
Net periodic benefit cost	**$ 21,748**	$ 27,189

Nine months ended September 30:

	Other Benefits	
	2023	2022
Service cost	**$ 17,094**	$ 24,882
Interest cost	**51,517**	39,927
Amortization of prior service credits	**(3,366)**	(3,363)
Amortization of net actuarial loss	**-**	20,121
Net periodic benefit cost	**$ 65,245**	$ 81,567

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2023, was $1,377,010 and is included in other liabilities on the balance sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "salaries and employee benefits" in the income statement.

The structure of the District's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The Association previously disclosed in its financial statements for the year ended December 31, 2022, that it expected to contribute $53,282 to the District's defined benefit pension plan in 2023. As of September 30, 2023, the full contribution has been made. The Association presently does not anticipate additional contributions to fund the defined benefit pension plan in 2023.

NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:

The Association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

NOTE 9 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through November 9, 2023 which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 9, 2023.