Second Quarter Financial Report June 30, 2023

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Frontier Farm Credit, ACA

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following commentary reviews the consolidated financial position and consolidated results of operations of Frontier Farm Credit, ACA, and its subsidiaries (Frontier Farm Credit). The accompanying consolidated financial statements and notes also contain important information about our unaudited financial position and results of operations. You should also read our 2022 Annual Report for a description of our organization, operations and significant accounting policies.

CoBank, ACB's financial condition and results of operations materially affect shareholders' investment in Frontier Farm Credit, ACA. To request a free copy of the CoBank, ACB financial reports, contact us at PO Box 2409, Omaha, NE 68103-2409, (800) 531-3905 or via email to $sr@frontierfarmcredit.com. You may also obtain copies by accessing CoBank, ACB's website at www.cobank.com.

Forward-Looking Information

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

Commodity Review and Outlook Update

The Frontier Farm Credit Appraisal team monitors real estate value trends through semi-annual appraisals of seven benchmark farms in eastern Kansas. The Appraisal team updates benchmark farm values based on the most recently reported real estate sales on January 1st and July 1st each year.

For the first six months of 2023, there was an overall increase of 6.2 percent in the benchmark values and in the twelve months ended June 30, 2023 there was a 10.6 percent increase.

Corn and soybean prices were volatile during the second quarter. Prices through mid-May were on a downward trend as Brazilian corn and soybean production were expected at record highs, and Russia having agreed to a 60-day extension of the Black Sea grain deal with Ukraine. Dry conditions throughout the Corn Belt dominated most of June bringing prices up. The second quarter ended with USDA's June Acreage Report signaling that United States producers planted more corn and less soybeans than expected. The USDA projects United States producers to plant over 94 million acres of corn and over 83 million acres of soybeans in 2023.

Cattle prices during the second quarter remained strong and well above market prices from a year ago. Limited supply and strong demand continue to provide support for the sector. After the United States experienced a record export year in 2022, year-to-date beef exports through May were approximately 11.0 percent below last year's pace due to falling domestic beef production, a relatively strong dollar, and some global macroeconomic weakness.

Refer to the Commodity Review and Outlook section of Management's Discussion & Analysis in the 2022 Annual Report for further analysis of farmland prices and industry conditions.

Loan Portfolio

Total loans were $2.7 billion at June 30, 2023, an increase of $27.1 million, or 1.0 percent from year-end. The increase was primarily due to an increase in our agribusiness and rural infrastructure loans.

Portfolio Credit Quality

Our adversely classified assets increased during the first six months of 2023 ending the quarter at 1.41 percent of the portfolio, compared to 1.02 percent of the portfolio at December 31, 2022. Adversely classified loans are assets we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for credit losses, and in our opinion, the allowance for credit losses was reasonable in relation to the risk in our loan portfolio at June 30, 2023.

Nonperforming Assets

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

The following table summarizes nonperforming assets and delinquency information (dollars in thousands):

	June 30, 2023	December 31, 2022
Loans:		
Nonaccrual	**$ 7,216**	$ 5,214
Restructured	**—**	637
Accruing loans 90 days or more past due	**2,582**	160
Total nonperforming loans	**9,798**	6,011
Other property owned, net	**—**	—
Total nonperforming assets	**$ 9,798**	$ 6,011
Nonperforming loans as a percentage of total loans	**0.37%**	0.22%
Nonaccrual loans as a percentage of total loans	**0.27%**	0.19%
Current nonaccrual loans as a percentage of total nonaccrual loans	**43.1%**	59.3%
Total delinquencies as a percentage of total loans	**0.36%**	0.15%

Note: Prior to the adoption of the CECL methodology, which was effective January 1, 2023, accruing loans included accrued interest receivable, and nonperforming loans included troubled debt restructured loans.

Total nonperforming assets have increased since year-end. The increase is primarily due to an increase in nonaccrual loans in the fruits and vegetables industry, partially offset by a decrease in the cow/calf industry. The increase is also due to an increase in accruing loans 90 days or more past due in the cow/calf industry. It is our practice to transfer accruing loans that are past due 90 days or more into nonaccrual unless they are adequately secured and in the process of collection. Based on our analysis, loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection and were eligible to remain in accruing status. Nonperforming loans as a percentage of total loans remained at acceptable levels.

Allowance for Credit Losses

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

Allowance for Credit Losses on Loans Coverage Ratios:

	June 30, 2023	December 31, 2022
Allowance as a percentage of:		
Total loans	**0.18%**	0.14%
Nonaccrual loans	**66.52%**	69.04%
Total nonperforming loans	**48.99%**	59.89%

Note: Prior to the adoption of the CECL methodology, which was effective January 1, 2023, accruing loans included accrued interest receivable, and nonperforming loans included troubled debt restructured loans.

Total allowance for credit losses was $5.5 million at June 30, 2023, and $4.7 million at December 31, 2022. The increase from December 31, 2022 was primarily related to increased specific reserves on existing impaired assets slightly offset by the cumulative effect adjustment from the adoption of CECL. Additional information regarding the CECL adoption is included in Note 1 to the accompanying consolidated financial statements. In our opinion, the allowance for credit losses on loans and unfunded commitments is reasonable in relation to the risk in our loan portfolio at June 30, 2023.

Results of Operations

The following table presents profitability information (dollars in thousands):

	For the six months ended June 30,	
	2023	2022
Net income (in thousands)	**$22,136**	$22,616
Return on average assets	**1.59%**	1.76%
Return on average members' equity	**7.95%**	8.54%

Changes in these ratios are directly related to the changes in income discussed in this section, changes in assets discussed in the Loan Portfolio section and changes in capital discussed in the Funding, Liquidity and Members' Equity section.

Major components of the changes in net income for the six months ended June 30, 2023 compared to the same period in 2022 are outlined in the following table (dollars in thousands):

For the six months ended June 30,	**2023**	2022	**Increase (decrease) in net income**
Net interest income	**$ 34,725**	$ 30,830	**$ 3,895**
Provision for credit losses	**793**	(264)	**(1,057)**
Noninterest income	**8,567**	8,988	**(421)**
Noninterest expense	**20,363**	17,466	**(2,897)**
Provision for income taxes, net	**—**	—	**—**
Net income	**$ 22,136**	$ 22,616	**$ (480)**

The effects on net interest income from changes in average volumes and rates are quantified in the following table for the six months ended June 30, (dollars in thousands):

	2023 vs. 2022
Change in volume	**$ 2,575**
Change in rates	**1,311**
Change in nonaccrual income	**9**
Net change	**$ 3,895**

The increase in net interest income is due to higher loan volume and higher net interest margin.

We recorded a $693 thousand provision for credit losses on loans for the first six months of 2023, as compared with recording a $(264) thousand provision for credit losses on loans during the first six months of 2022. We recorded $100 thousand provision for credit losses on unfunded commitments for the first six months of 2023, as compared with no provision for credit losses on unfunded commitments during the first six months of 2022. The increase in provision was related to an increase in specific reserves on a few loans. Net recoveries for the first six months of 2023 was $107 thousand compared to net charge offs of $136 thousand in the same period a year ago. The change in the provision for credit losses on loans and unfunded commitments reflects our assessment of risk in the loan portfolio.

The decrease in noninterest income is primarily due to a decrease in loan fees and Rural 1st program fees and was offset by an increase in patronage. The increase in noninterest expense is primarily due to an increase in operating expenses under the income and expense sharing provisions of the alliance agreement.

We recorded $15.2 million of operating expenses under the income and expense sharing provisions of the alliance agreement in the first six months of 2023 compared to $12.5 million for the first six months of 2022. Refer to Note 1 in our 2022 Annual Report for additional information on the alliance.

We may receive patronage from CoBank, ACB and other Farm Credit entities. Patronage distributions from those entities are declared solely at the discretion of each institution's Board of Directors (dollars in thousands).

	For the six months ended June 30, 2023	For the six months ended June 30, 2022
Patronage from CoBank, ACB	**$ 5,109**	$ 4,609
AgDirect patronage distribution	**648**	599
Other patronage	**10**	48
Total patronage income	**$ 5,767**	$ 5,256

Patronage from CoBank, ACB primarily includes wholesale patronage.

Funding, Liquidity and Members' Equity

We borrow from CoBank, ACB under a note payable, in the form of a line of credit. The note payable is collateralized by a pledge of substantially all our assets and is governed by a General Financing Agreement (GFA), which provides for an open-ended revolving line of credit. The line of credit was renegotiated as of June 1, 2023 and was renewed for $2.6 billion with a maturity of May 31, 2024 at which time the note will be renegotiated, if not sooner. Substantially all borrower loans are match-funded with CoBank, ACB which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as Frontier Farm Credit is a stockholder of CoBank, ACB, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

The interest rate may periodically be adjusted by CoBank, ACB based on the terms and conditions of the borrowing. CoBank, ACB has established limitations on our ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At June 30, 2023 and at December 31, 2022 we were within the specified limitations.

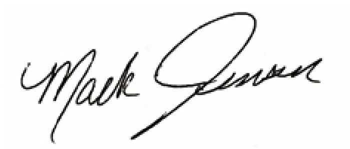
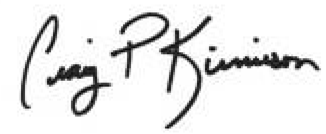
Our members' equity increased to $574.1 million at June 30, 2023 compared to $551.8 million at December 31, 2022. The increase was primarily due to the net income recorded for the first six months of 2023.

Farm Credit Administration regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital and permanent capital risk-based capital ratios. In addition, the Farm Credit Administration requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 8 in our 2022 Annual Report for a more complete description of these ratios. The capital adequacy ratios are directly impacted by the changes in capital as more fully discussed in this section and the changes in assets as discussed in the Loan Portfolio section and off-balance sheet commitments, as disclosed in Note 12 in our 2022 Annual Reports.

	As of June 30, 2023	As of December 31, 2022	Regulatory Minimums	Capital Conservation Buffers
Risk-adjusted:				
Common equity tier 1 ratio	**16.06%**	15.95%	4.50%	7.00%
Tier 1 capital ratio	**16.06%**	15.95%	6.00%	8.50%
Total capital ratio	**16.22%**	16.11%	8.00%	10.50%
Permanent capital ratio	**16.09%**	15.97%	7.00%	7.00%
Non-risk-adjusted:				
Tier 1 leverage ratio	**18.29%**	18.13%	4.00%	5.00%
Unallocated retained earnings and equivalents leverage ratio	**18.29%**	18.13%	1.50%	1.50%

Certification

This report has been prepared under the oversight of the Board's Audit Committee. The undersigned certify that they have reviewed this report and 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 their knowledge and belief.

		
Mark Jensen	Shane Tiffany	Craig P. Kinnison
President and CEO	Chairperson, ACA Board of Directors	Executive Vice-President and CFO
August 4, 2023	August 4, 2023	August 4, 2023

Frontier Farm Credit, ACA
Consolidated Balance Sheets
(dollars in thousands)

	June 30, 2023 (unaudited)	December 31, 2022
ASSETS		
Loans	**$ 2,676,551**	$ 2,649,458
Allowance for credit losses on loans	**4,800**	3,600
Net loans	**2,671,751**	2,645,858
Accrued interest receivable	**35,472**	31,528
Investment in CoBank , ACB	**63,431**	67,809
Investment in AgDirect, LLP	**8,455**	8,270
Investment in RBIC	**4,108**	3,621
Premises and equipment, net	**20,737**	20,933
Prepaid benefit expense	**8,306**	8,702
Other assets	**7,817**	27,785
Total assets	**$ 2,820,077**	$ 2,814,506
LIABILITIES		
Notes payable	**$ 2,231,195**	$ 2,211,801
Accrued interest payable	**6,721**	5,736
Patronage payable	**—**	22,700
Allowance for credit losses on unfunded commitments	**700**	1,100
Accrued benefits liability	**186**	192
Other liabilities	**7,127**	21,162
Total liabilities	**2,245,929**	2,262,691
Commitments and contingencies (Note 5)		
MEMBERS' EQUITY		
At-risk capital:		
Class B common stock	**9,220**	9,191
Class C common stock	**181**	188
Less: Capital stock receivable	**(9,401)**	(9,379)
Retained earnings	**574,148**	551,815
Total members' equity	**574,148**	551,815
Total liabilities and members' equity	**$ 2,820,077**	$ 2,814,506

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

Frontier Farm Credit, ACA
Consolidated Statements of Income

(dollars in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	**2023**	2022
NET INTEREST INCOME				
Interest income	**$ 38,207**	$ 23,660	**$ 72,910**	$ 45,455
Interest expense	**19,840**	8,016	**38,185**	14,625
Net interest income	**18,367**	15,644	**34,725**	30,830
Provision for credit losses	**651**	(423)	**793**	(264)
Net interest income after provision for credit losses	**17,716**	16,067	**33,932**	31,094
NONINTEREST INCOME				
Patronage income	**2,875**	2,618	**5,767**	5,208
Loan fees	**552**	979	**1,049**	1,488
Mineral income	**462**	409	**842**	805
Rural 1st program fees	**327**	484	**498**	765
Insurance services	**111**	275	**351**	482
Other noninterest income	**56**	2	**60**	240
Total noninterest income	**4,383**	4,767	**8,567**	8,988
NONINTEREST EXPENSE				
Salaries and employee benefits	**5,252**	4,922	**10,568**	9,848
Occupancy and equipment expense	**897**	842	**1,668**	1,641
Other operating expenses	**3,594**	3,065	**6,194**	3,859
Insurance fund premiums	**964**	1,181	**1,933**	1,962
Other noninterest expense	**—**	23	**—**	156
Total noninterest expense	**10,707**	10,033	**20,363**	17,466
Income before income taxes	**11,392**	10,801	**22,136**	22,616
Provision for income taxes	**—**	(7)	**—**	—
Net income	**$ 11,392**	$ 10,808	**$ 22,136**	$ 22,616

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

Frontier Farm Credit, ACA
Consolidated Statements of Changes in Members' Equity
(dollars in thousands)
(unaudited)

	Capital Stock	Retained Earnings	Total Equity
Balance at December 31, 2021	$ —	$ 524,191	$ 524,191
Net income		22,616	22,616
Patronage accrual adjustment		46	46
Capital stock:			
Issuance of stock in exchange for customer stock receivable	480		480
Release of customer stock receivable associated with retired stock	(445)		(445)
Less: Capital stock receivable	(35)		(35)
Balance at June 30, 2022	$ —	$ 546,853	$ 546,853
Balance at December 31, 2022	$ —	$ 551,815	$ 551,815
Net income		**22,136**	**22,136**
Cumulative effect of change in accounting principle		**100**	**100**
Patronage accrual adjustment		**97**	**97**
Capital stock:			
Issuance of stock in exchange for customer stock receivable	**322**		**322**
Release of customer stock receivable associated with retired stock	**(301)**		**(301)**
Less: Capital stock receivable	**(21)**		**(21)**
Balance at June 30, 2023	**$ —**	**$ 574,148**	**$ 574,148**

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

Notes to Consolidated Financial Statements (unaudited)

Note 1 - Organization and Significant Accounting Policies

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Financial Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the six months ended June 30, 2023 are not necessarily indicative of the results to be expected for the year ending December 31, 2023. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the consolidated financial statements and related notes included in our 2022 Annual Report for the year ended December 31, 2022. Certain amounts in prior period's consolidated financial statements have been reclassified to conform to the current period's presentation.

The consolidated financial statements present the consolidated financial results of Frontier Farm Credit, ACA (the parent) and Frontier Farm Credit, FLCA and Frontier Farm Credit, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

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

Loans - Loans are carried at their principal amount outstanding, net of any unearned income, cumulative charge-offs and unamortized premiums or discounts on purchased loans. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding.

We place loans in nonaccrual status when:

- principal or interest is delinquent for 90 days or more (unless the loan is adequately secured and in the process of collection), or
- circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse accrued interest, if accrued in the current year. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior charge-offs. Nonaccrual loans may be returned to accrual status when principal and interest are current, the customer's ability to fulfill the contractual payment terms is fully expected, and, if the loan was past due when placed in nonaccrual status, the loan has evidence of sustained performance in making on-time contractual payments.

Loans are charged off at the time they are determined to be uncollectible.

A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan remains contractually past due until 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.

Loan modifications may be granted to borrowers experiencing financial difficulty. Qualifying disclosable modifications are one or a combination of: principal forgiveness, interest rate reduction, a term extension, or payment extension. Covenant waivers and modifications of contingent acceleration clauses are not considered term extensions.

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

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

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

The allowance for credit losses on loans and on unfunded commitments represents the estimated current expected credit losses over the remaining contractual life of the portfolio, adjusted for expected prepayments, and expected utilization of unfunded commitments. The allowance for credit losses takes into consideration relevant information about past events, current conditions and macroeconomic forecasts of future conditions. Multiple economic scenarios are considered over a reasonable and supportable forecast period, after which, we revert to long run historical economic conditions on an exponential basis. The contractual term excludes expected extensions, renewals, and modifications unless the extension or renewal options are not unconditionally cancellable.

The allowance for credit losses on loans and on unfunded commitments is increased through provisions for credit losses and loan recoveries and is decreased through provisions for credit loss reversals and loan charge-offs. The allowance for credit losses on unfunded commitments is included in the "Liabilities" section in the Statements of Condition. The provision activity is included as part of the "Provision for Credit Losses" in the Consolidated Statements of Income. See Note 2 Loans and Allowance for Credit Losses for further information.

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 then existing loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for credit losses in those future periods. Loans are evaluated on the amortized cost basis, including unamortized premiums and discounts. We utilize multiple economic scenarios - baseline, adverse, and optimistic - over a reasonable and supportable forecast period of two years. Subsequent to the forecast period, we revert to long run historical economic conditions beyond the two years on an exponential basis to inform the estimate of losses for the remaining contractual life of the loan portfolio.

The economic forecasts incorporate macroeconomic variables including 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, we consider 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 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.

We employ a disciplined process and methodology to establish the allowance for credit losses 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.

The asset-specific approach only applies to non-performing exposures. 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 of the loan and the fair value of the underlying collateral. The fair value of the collateral is adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral. In accordance with our appraisal policy, the fair value of collateral-dependent loans is based upon independent third-party appraisals or on collateral valuations prepared by in-house appraisers. When an updated appraisal or collateral valuation is received, management reassesses the need for adjustments to the loan’s expected credit loss measurements and, where appropriate, records an adjustment. If the calculated expected credit loss is determined to be permanent, fixed or non-recoverable, the credit loss portion of the loan will be charged off against the allowance for credit losses.

In estimating the component of the allowance for credit losses 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, interest rate product, commodity, credit quality rating, delinquency category or marketplace delivery 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. In addition to the quantitative calculation, we consider 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 allowance for credit losses results. We have no qualitative adjustments in our current allowance.

The final credit loss estimate may also consider factors not reflected in the economic forecast and historical loss experience due to the unique aspects of current conditions and expectations. These factors may include, but are not limited to: lending policies and procedures, experience and depth of lending staff, credit quality and delinquency trends, individual borrower and industry concentrations, national, regional, and local economic business conditions and developments, and collateral value trends.

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

Accrued Interest Receivable - Accrued interest receivable on loans are presented in the consolidated statements of condition. Additionally, effective January 1, 2023, accrued interest receivable has been excluded, in the current year results, from the following footnote disclosures to align with this presentation.

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

Recently Issued or Adopted Accounting Pronouncements

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

In June 2016, the Financial Accounting Standards Board issued ASU 2016-13 "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The guidance was originally effective for non-U.S. Securities and Exchange Commission filers for our first quarter of 2021. In November 2019, the Financial Accounting Standards Board issued ASU 2019-10, which amended the mandatory effective date for this guidance for certain institutions. We qualified for the deferral of the mandatory effective date. As a result of the change, the standard was effective for our first quarter of 2023. Additionally, the Financial Accounting Standards Board issued several updates during 2019 refining and clarifying Topic 326. This guidance replaced the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. We adopted this standard on January 1, 2023. As a result of adoption of this guidance, the allowance for credit losses on loans increased by $400 thousand and the allowance for credit losses on unfunded commitments decreased by $500 thousand with a cumulative-effect increase of $100 thousand, net of tax balances, to retained earnings.

In March 2022, the Financial Accounting Standards Board issued ASU 2022-02 "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures." The guidance was effective at the same time that ASU 2016-13 was adopted. This guidance eliminated the accounting guidance for troubled debt restructurings by creditors in Subtopic 310-40, "Receivables - Troubled Debt Restructurings by Creditors," while enhancing disclosure requirements for certain loan refinancings and restructurings. The expanded vintage disclosures are not applicable to nonpublic business entities. We adopted the standard on January 1, 2023. The adoption of this guidance did not have a material impact on our financial statements but did modify certain disclosures beginning with our first-quarter 2023 Quarterly Report.

Refer to Note 2 in our 2022 Annual Report for additional information on other accounting standards that have been issued but are not yet effective.

Note 2 – Loans and Allowance for Credit Losses

Loans by type consisted of the following (dollars in thousands):

	June 30, 2023		December 31, 2022	
	Amount	**Percentage**	Amount	Percentage
Long-term agricultural mortgage	**$ 1,518,811**	**56.8 %**	$ 1,514,583	57.2 %
Production and intermediate term	**554,843**	**20.7**	579,811	21.9
Agribusiness	**401,615**	**15.0**	375,811	14.2
Rural infrastructure	**131,379**	**4.9**	106,335	4.0
Rural residential real estate	**48,542**	**1.8**	50,911	1.9
Agricultural export finance	**21,361**	**0.8**	22,007	0.8
Total loans	**$ 2,676,551**	**100.0 %**	$ 2,649,458	100.0 %

As a result of the adoption of CECL, accrued interest receivable on loans of $35.5 million at June 30, 2023 has been excluded from the amortized cost of loans in all of the following tables and is presented in "Accrued Interest Receivable" in the consolidated statements of condition.

Credit Quality

One credit quality indicator we utilize is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

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

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

The following table shows loans classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans by loan type at amortized cost (dollars in thousands):

As of June 30, 2023

	Acceptable		OAEM		Substandard/Doubtful		Total
	Amount	%	Amount	%	Amount	%	Amount
Long-term agricultural mortgage	$1,484,422	97.74 %	$ 22,612	1.49 %	$ 11,777	0.77 %	$1,518,811
Production and intermediate term	518,096	93.38 %	19,274	3.47 %	17,473	3.15 %	554,843
Agribusiness	379,221	94.42 %	14,969	3.73 %	7,425	1.85 %	401,615
Rural infrastructure	130,885	99.62 %	—	—	494	0.38 %	131,379
Rural residential real estate	47,709	98.28 %	286	0.59 %	547	1.13 %	48,542
Agricultural export finance	21,361	100.00 %	—	—	—	—	21,361
Total	$2,581,694	96.46 %	$ 57,141	2.13 %	$ 37,716	1.41 %	$2,676,551

As of December 31, 2022

	Acceptable		OAEM		Substandard/Doubtful		Total
	Amount	%	Amount	%	Amount	%	Amount
Long-term agricultural mortgage	$1,507,672	98.15 %	$ 18,672	1.22 %	$ 9,736	0.63 %	$1,536,080
Production and intermediate term	565,824	96.27 %	17,340	2.95 %	4,561	0.78 %	587,725
Agribusiness	359,481	95.25 %	5,147	1.36 %	12,793	3.39 %	377,421
Rural infrastructure	106,574	100.00 %	—	—	—	—	106,574
Rural residential real estate	50,352	98.73 %	303	0.60 %	343	0.67 %	50,998
Agricultural export finance	22,188	100.00 %	—	—	—	—	22,188
Total	$2,612,091	97.43 %	$ 41,462	1.55 %	$ 27,433	1.02 %	$2,680,986

Delinquency

The following table provides an aging analysis of past due loans by loan type at amortized cost (dollars in thousands):

As of June 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**	**90 Days or More Past Due and Accruing**
Long-term agricultural mortgage	$ 2,720	$ 364	$ 3,084	$ 1,515,727	$ 1,518,811	$ —
Production and intermediate term	3,048	3,297	6,345	548,498	554,843	2,582
Agribusiness	—	—	—	401,615	401,615	—
Rural infrastructure	—	—	—	131,379	131,379	—
Rural residential real estate	300	—	300	48,242	48,542	—
Agricultural export finance	—	—	—	21,361	21,361	—
Total	$ 6,068	$ 3,661	$ 9,729	$ 2,666,822	$ 2,676,551	$ 2,582

As of December 31, 2022	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	90 Days or More Past Due and Accruing
Long-term agricultural mortgage	$ 1,212	$ 810	$ 2,022	$ 1,534,058	$1,536,080	$ —
Production and intermediate term	101	630	731	586,994	587,725	160
Agribusiness	1,247	—	1,247	376,174	377,421	—
Rural infrastructure	—	—	—	106,574	106,574	—
Rural residential real estate	20	—	20	50,978	50,998	—
Agricultural export finance	—	—	—	22,188	22,188	—
Total	$ 2,580	$ 1,440	$ 4,020	$ 2,676,966	$2,680,986	$ 160

Nonperforming Loans

The following table reflects nonperforming loans, which consist of nonaccrual loans and accruing loans 90 days or more past due, at amortized cost (dollars in thousands):

	June 30, 2023	December 31, 2022
Nonaccrual loans:		
Long-term agricultural mortgage	**$ 4,445**	$ 3,066
Production and intermediate term	**1,301**	574
Agribusiness	**1,460**	1,555
Rural residential real estate	**10**	19
Total nonaccrual loans	**$ 7,216**	$ 5,214
Accruing restructured loans:		
Long-term agricultural mortgage	**$ —**	$ 54
Agribusiness	**—**	583
Total accruing restructured loans	**$ —**	$ 637
Accruing loans 90 days or more past due:		
Production and intermediate term	**$ 2,582**	$ 160
Total accruing loans 90 days or more past due	**$ 2,582**	$ 160
Total nonperforming assets	**$ 9,798**	$ 6,011

Note: Prior to adoption of CECL on January 1, 2023, nonperforming loans included restructured loans.

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

	As of June 30, 2023		**For the six months ended June 30, 2023**
	Amortized Cost with Specific Allowance	**Amortized Cost without Specific Allowance**	**Interest Income Recognized**
Nonaccrual loans:			
Long-term agricultural mortgage	**$ —**	**$ 4,445**	**$ 9**
Production and intermediate term	**769**	**532**	**(9)**
Agribusiness	**1,067**	**393**	**—**
Rural residential real estate	**—**	**10**	**—**
Total nonaccrual loans	**$ 1,836**	**$ 5,380**	**$ —**
Accruing loans 90 days or more past due:			
Production and intermediate term	**$ —**	**$ 2,582**	**$ 18**
Total accruing loans 90 days or more past due	**$ —**	**$ 2,582**	**$ 18**

Interest receivables reversed from interest income were not material for the six months ended June 30, 2023.

Loan Modifications Granted to Borrowers Experiencing Financial Difficulty

Loan modifications may be granted to borrowers experiencing financial difficulty. Qualifying disclosable modifications are one or a combination of: principal forgiveness, interest rate reduction, a term extension, or payment extension. Covenant waivers and modifications of contingent acceleration clauses are not considered term extensions.

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty for the six months ended June 30, 2023, (in thousands):

	For the six months ended June 30, 2023		
	Term Extension	Total	Percentage of Total Loans
Production and intermediate term	$ 4,883	$ 4,883	0.18 %
Agribusiness	1,970	1,970	0.08 %
Total	$ 6,853	$ 6,853	0.26 %

Note: Excludes loans that were modified during the period, but were paid off, repurchased, or sold prior to period end.

Financial Effect of Loan Modifications

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty during the six months ended June 30, 2023:

For the six months ended June 30, 2023	Term Extension
	Financial Effect
Production and intermediate term	**Added a weighted average 19 months to the life of loans, which reduced the monthly payment amount for the borrowers**
	Term Extension
	Financial Effect
Agribusiness	**Added a weighted average 18 months to the life of loans, which reduced the monthly payment amount for the borrowers**

There were no loans to borrowers experiencing financial difficulty that received a modification after January 1, 2023, the date we adopted CECL, through June 30, 2023, and subsequently defaulted during the period presented.

The following table presents the payment status of modified loans for the six months ended June 30, 2023 (in thousands):

	For the six months ended June 30, 2023		
	Payment Status of Modified Loans		
	Not Past Due or Less than 30 Days Past Due	30-89 Days Past Due	90 Days or More Past Due
Production and intermediate term	**$ 4,883**	**$ —**	**$ —**
Agribusiness	**1,970**	**—**	**—**
Total	**$ 6,853**	**$ —**	**$ —**

There were $1.0 million in additional commitments to lend to borrowers experiencing financial difficulty whose loans have been modified during the period ended June 30, 2023.

Allowance for Credit Losses

An analysis of changes in the allowance for credit losses for the six months ended June 30, 2023 follows (dollars in thousands):

	For the six months ended June 30,	
Allowance for credit losses on loans	**2023**	2022
Balance at beginning of year	**$ 3,600**	$ 4,000
Cumulative effect of change in accounting principle	**400**	—
Provision for credit losses on loans	**693**	(264)
Charge-offs	**(20)**	(242)
Recoveries	**127**	106
Balance at end of period	**$ 4,800**	$ 3,600
Allowance for credit losses for unfunded commitments		
Balance at beginning of year	**$ 1,100**	$ 1,000
Cumulative effect of change in accounting principle	**(500)**	—
Provision for credit losses for unfunded commitments	**100**	—
Balance at end of period	**$ 700**	$ 1,000
Total allowance for credit losses	**$ 5,500**	$ 4,600

Previously Required Disclosures

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

Risk Loans

Risk loans are loans for which it was probable that all principal and interest would not be collected according to the contractual terms. The following tables present information concerning risk loans (dollars in thousands):

	December 31, 2022
Risk loans with specific allowance	$ 1,112
Risk loans without specific allowance	4,899
Total risk loans	$ 6,011
Total specific allowance	$ 480

	For the six months ended June 30, 2022
Interest income recognized on nonaccrual loans	$ (9)
Interest income recognized on risk accrual loans	54
Interest income recognized on risk loans	$ 45
Average risk loans	$ 10,735

Note: Accruing loans include accrued interest receivable

Troubled Debt Restructurings

Prior to the adoption of CECL, a restructuring of a loan constituted a troubled debt restructuring (TDR), also known as formally restructured, if the creditor for economic or legal reasons related to the borrower's financial difficulties, granted a concession for other than an insignificant period of time to the borrower that would not otherwise be considered. A concession was generally granted in order to minimize economic loss and avoid foreclosure. Concessions varied by program and borrower and may have included interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may have been forgiven. Loans classified as TDRs were considered risk loans. All risk loans were analyzed within our allowance for loan losses. We recorded a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

There were no TDRs that occurred in the six months ended June 30, 2022.

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

The following table presents TDRs outstanding at (dollars in thousands):

TDRs Outstanding	December 31, 2022
Accrual status:	
Long-term agricultural mortgage	$ 54
Agribusiness	583
Total TDRs in accrual status	$ 637
Nonaccrual status:	
Agribusiness	$ 29
Total TDRs in nonaccrual status	$ 29
Total TDRs:	
Long-term agricultural mortgage	$ 54
Agribusiness	612
Total TDRs	$ 666

Note 3 – Investment in Rural Business Investment Company

We and other Farm Credit System institutions are among the limited partners invested in six Rural Business Investment Companies (RBIC). The RBICs facilitate equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. As of June 30, 2023, our current total commitment is $15.0 million of which $10.4 million is unfunded with varying commitment end dates through December 2038. Certain commitments may have an option to extend under specific circumstances.

Note 4 – Fair Value Measurements

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

We did not have any assets or liabilities measured at fair value on a recurring basis at June 30, 2023, or December 31, 2022. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis is as follows (dollars in thousands):

	Fair Value Measurement Using			
As of June 30, 2023	Level 1	Level 2	Level 3	Total Fair Value
Nonperforming loans	—	—	**$ 838**	**$ 838**

	Fair Value Measurement Using			
As of December 31, 2022	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	—	—	$ 1,166	$ 1,166

Nonperforming/Impaired loans: Represents the carrying amount of loans evaluated individually for credit losses and are deemed to be collateral dependent. The carrying value amount is based on the estimated value of the underlying collateral, less costs to sell. When the fair value of the collateral, less cost to sell, is less than the amortized cost basis of the loan, a specific allowance for expected credit losses is established. Costs to sell represent transaction costs and are not included as a component of the collateral's estimated fair value. Typically, the process requires significant input based on management's knowledge of and judgement about current market conditions, specific issues relating to the collateral and other matters and, therefore, are classified as Level 3 fair value measurements. Prior to adoption of CECL on January 1, 2023, impaired loans included troubled debt restructures, nonaccrual loans and loans 90 days or more past due. Nonperforming loans now include nonaccrual loans and loans 90 days or more past due.

Note 5- Commitments and Contingencies

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

From time to time, we may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

Refer to Note 12 in our 2022 Annual Report for additional detail regarding contingencies and commitments.

Note 6- Subsequent Events

We have evaluated subsequent events through August 4, 2023 which is the date the financial statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the notes to consolidated financial statements.