PLAINS LAND BANK, FLCA

2023
Quarterly Report
Second Quarter

For the Quarter Ended June 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.

Kay Lynn McLaughlin, Chief Executive Officer
August 9, 2023

Walter (Rusty) Henson, Chairman, Board of Directors
August 9, 2023

Brooke Alvis, Chief Financial Officer
August 9, 2023

Second Quarter 2023 Financial Report

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The following commentary reviews the financial performance of the Plains Land Bank, FLCA, referred to as the Association, for the quarter ended June 30, 2023. These comments should be read in conjunction with the accompanying financial statements and the 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 financial statements comprise the operations of the FLCA. The financial statements were prepared under the oversight of the Association's audit committee.

Significant Events:

In January 2023, a patronage of $10,500,000 was declared. This patronage was subsequently paid in March of 2023.

Conditions in the Texas District:

The Texas District continues to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit in the midst of above normal financial and macroeconomic volatility driven by atypical factors such as a continuously inverted yield curve and persistently high inflation. Federal Reserve officials continue to battle inflation by continuing to tighten monetary policy. Despite these turbulent times, credit quality in the Texas District has remained strong. Volatility in credit risk ratings is likely to remain a concern in the near future due to cost inflation, the relatively high cost of debt, and underlying recession risk.

The Consumer Price Index for All Urban Consumers increased by 3.0% for the 12-month period ending June 2023, above the long-term target of approximately 2.0%. However, recent inflation rates represent significant declines from the four-decade high of 9.1% reached in June 2022. The Federal Open Market Committee (FOMC) raised the Federal funds rate to a target range of 5.25 – 5.50% in July 2023. The 25 basis point increase in July led to a cumulative increase of about 525 basis points since mid-March 2022. The FOMC reiterated its commitment to returning inflation to its 2.0% objective, which may require further tightening in future periods.

On June 29, the U.S. Bureau of Economic Analysis (BEA) released its third estimate of real gross domestic product (GDP) for the first quarter of 2023. U.S. real GDP growth decelerated but continued to expand during the first quarter of 2023 by about 2.0%, down from 2.6% during the fourth quarter of 2022 but up from -1.6% during the same period a year ago. The International Monetary Fund's World Economic Outlook projects that U.S. real GDP growth will be 1.6% in 2023 and 1.1% in 2024. Additionally, BEA released the first quarter of 2023 annualized real GDP growth rates for the states within the Texas District on June 30. Growth rates among Texas District states similarly decelerated during the first quarter of 2023 and ranged from a low of 0.1% in Alabama to a high of 3.0% in Texas. Economic activity in the agriculture, forestry, fishing, and hunting sector increased in 33 states and was the leading contributor to growth in 13 states, including North Dakota, Nebraska, South Dakota, Kansas, and Montana, the five states with the largest increases in real GDP.

The U.S. Bureau of Labor Statistics indicated that the U.S. unemployment rate increased month-over-month from 3.4% in April to 3.7% in May 2023. The May 2023 state unemployment rates in the Texas District ranged from a low of 2.2% in Alabama to a high of 4.1% in Texas. Three of the five Texas District states (i.e., Alabama, New Mexico, and Mississippi) attained year-over-year declines in the unemployment rate in May 2023.

West Texas Intermediate (WTI) crude oil futures prices (front-month) decreased to an average of about $74 per barrel during the second quarter of 2023, down from $76 per barrel in the prior quarter and about $109 per barrel during the same period a year ago. In the June 2023 edition of the Short-Term Energy Outlook, the U.S. Energy Information Administration estimated that the monthly average WTI spot price would be about $75 per barrel in 2023 and nearly $79 per barrel in 2024. U.S. crude oil production is expected to reach record levels in 2023 and 2024, driven primarily by growth in the Permian Basin.

On June 30, 2023, the U.S. Department of Agriculture (USDA) released its 2023 Acreage report. Corn planted area was estimated at 94.1 million acres in 2023, up nearly 6.2% from last year and revised up by about 2.0% from the prior report. Corn planted acreage is expected to be up or unchanged from the previous year in 43 of the 48 estimating states. Soybean planted area for 2023 was estimated at 83.5 million acres, down about 4.5% from last year. All wheat planted area is estimated at 49.6 million acres, up about 8.5% from 2022. All cotton planted area was estimated at 11.1 million acres, down about 19.4% from last year. Estimated planted acres of soybeans, wheat, and cotton were revised down in this update. These estimates are derived via a survey of farmers' intentions and are subject to change throughout the season.

The June 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 (-27.3%), soybeans (-14.8%), wheat (-13.0%), and cotton (-6.1%) in the 2023/24 marketing year compared to the previous season. Similarly, the average price received by farmers for all milk is projected to decrease by about 21.0% year-over-year in 2023 and by 1.5% in 2024 after rising nearly 37.0% in 2022. USDA projects that average steer prices (5-Area, Direct) will increase year-over-year by about 18.9% in 2023, while broilers and barrows and gilts prices are projected to decline by about 7.4% and 20.4%, respectively. Random length lumber futures prices (front-month) declined by about 14.6% year-over-year as of June 2023; however, on a month-over-month basis, prices rose by nearly 12.8% in June.

During 2023, agricultural producers and processors may be negatively impacted by several factors, including volatile commodity prices, high input costs, export market disruptions, geopolitical challenges, and adverse weather conditions. The Texas District's loan portfolio is well-supported by industry diversification and conservative advance rates. Additionally, a high percentage of the Texas District's borrowers primarily rely on non-farm sources of income to repay their loans.

Loan Portfolio:

Total loans outstanding on June 30, 2023, including nonaccrual loans, were $1,014,917,213 compared to $952,871,122 on December 31, 2022, reflecting an increase of 6.5 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.1 percent at June 30, 2023, compared to 0.1 percent at December 31, 2022.

The Association recorded $3,677 in recoveries and no charge-offs for the quarter ended June 30, 2023. There were no recoveries or charge-offs for the same period in 2022. The Association's allowance for credit losses on loan was 0.2 percent and 0.2 percent of total loans outstanding as of June 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.

High-Risk Assets

	June 30, 2023		December 31, 2022	
	Amount	**%**	Amount	%
Nonaccrual	**$ 556,752**	**8.1%**	$ 1,005,885	100.0%
90 days past due and still accruing interest	**6,318,381**	**91.9%**	-	0.0%
Total	**$ 6,875,133**	**100.0%**	$ 1,005,885	100.0%

Results of Operations

The Association had net income of $6,111,442 and $12,171,395 for the three and six months ended June 30, 2023, as compared to net income of $5,714,908 and $10,913,076 for the same period in 2022, reflecting an increase of 6.9 percent and 11.5 percent. Net interest income was $7,057,422 and $13,945,583 for the three and six months ended June 30, 2023, compared to $6,305,248 and $12,412,746 for the same period in 2022.

	Six Months Ended							
	June 30, 2023				June 30, 2022			
		Average Balance		**Interest**		Average Balance		Interest
Loans	**$**	**991,557,519**	**$**	**28,833,703**	$	899,111,328	$	21,182,592
Interest-bearing liabilities		**860,535,291**		**14,888,120**		776,717,256		8,769,846
Impact of capital	**$**	**131,022,228**			$	122,394,072		
Net interest income			**$**	**13,945,583**			$	12,412,746

	2023 Average Yield	2022 Average Yield
Yield on loans	**5.86%**	4.75%
Cost of interest-bearing liabilities	**3.49%**	2.28%
Interest rate spread	**2.37%**	2.47%
Net interest income as a percentage of average earning assets	**2.84%**	2.78%

	Six months ended: June 30, 2023 vs. June 30, 2022					
	Increase due to					
	Volume		**Rate**		**Total**	
Interest income - loans	**$**	**2,177,964**	**$**	**5,473,147**	**$**	**7,651,111**
Interest expense		**946,383**		**5,171,891**		**6,118,274**
Net interest income	**$**	**1,231,581**	**$**	**301,256**	**$**	**1,532,837**

Interest income for the three and six months ended June 30, 2023, increased by $3,898,585 and $7,651,111, or 35.5 percent and 36.1 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 six months ended June 30, 2023, increased by $3,146,411 and $6,118,274, or 67.3 percent and 69.8 percent respectively, 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 second quarter of 2023 was $1,003,317,944, compared to $917,444,805 in the second quarter of 2022. The average net interest rate spread on the loan portfolio for the second quarter of 2023 was 2.36 percent, compared to 2.47 percent in the second quarter of 2022.

The Association's return on average assets for the six months ended June 30, 2023, was 2.39 percent compared to 2.36 percent for the same period in 2022. The Association's return on average equity for the six months ended June 30, 2023, was 15.47 percent, compared to 15.03 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.

	June 30, 2023		December 31, 2022	
Note payable to the Bank	**$**	**884,539,624**	$	823,977,823
Accrued interest on note payable		**2,651,308**		2,250,424
Total	**$**	**887,190,932**	$	826,228,247

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2023. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $884,539,624 as of June 30, 2023, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 3.49 percent on June 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 GFA. 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 accrual loan volume. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $130,171,174 on June 30, 2023. The maximum amount the Association may borrow from the Bank as of June 30, 2023, was $1,024,782,285 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, which is September 30, 2023, 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 $1,445,959 on June 30, 2023, compared to December 31, 2022. The Association's debt as a percentage of members' equity was 5.43:1 as of June 30, 2023, compared to 5.12:1 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 June 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 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 Plains Land Bank, FLCA more fully describe the Association's relationship with the Bank.

The annual and quarterly stockholder reports of the Bank can be found at the Bank's 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 Plains Land Bank, FLCA, 1616 S. Kentucky St., Suite C250, Amarillo, Texas 79102-5210 or calling (806) 331-0926. The annual and quarterly stockholder reports for the Association are also available on its website at *www.plainslandbank.com.* Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *balvis@plainslandbank.com.*

PLAINS LAND BANK, FLCA

BALANCE SHEET

		June 30, 2023 (unaudited)		December 31, 2022
ASSETS				
Cash	**$**	**6,377**	$	7,026
Loans		**1,014,917,213**		952,871,122
Less: allowance for credit losses		**2,517,891**		2,103,114
Net loans		**1,012,399,322**		950,768,008
Accrued interest receivable		**17,757,644**		19,264,965
Investment in and receivable from the Farm Credit Bank of Texas:				
Capital stock		**17,835,510**		17,906,140
Other		**2,910,598**		2,457,569
Premises and equipment, net		**2,458,782**		2,424,353
Other assets		**507,246**		499,174
Total assets	**$**	**1,053,875,479**	$	993,327,235
LIABILITIES				
Note payable to the Farm Credit Bank of Texas	**$**	**884,539,624**	$	823,977,823
Accrued interest payable		**2,651,308**		2,250,424
Drafts outstanding		**129,095**		288,319
Other liabilities		**2,707,846**		4,409,022
Total liabilities		**890,027,873**		830,925,588
MEMBERS' EQUITY				
Capital stock and participation certificates		**2,318,790**		2,267,000
Unallocated retained earnings		**161,250,161**		159,833,480
Accumulated other comprehensive income		**278,655**		301,167
Total members' equity		**163,847,606**		162,401,647
Total liabilities and members' equity	**$**	**1,053,875,479**	$	993,327,235

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

PLAINS LAND BANK, FLCA

STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2023	2022	**2023**	2022
INTEREST INCOME				
Loans	**$ 14,878,251**	$ 10,979,666	**$ 28,833,703**	$ 21,182,592
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**7,820,829**	4,674,418	**14,888,120**	8,769,846
Net interest income	**7,057,422**	6,305,248	**13,945,583**	12,412,746
PROVISION FOR (REVERSAL OF) CREDIT LOSSES	**291,271**	(51,052)	**134,962**	(83,920)
Net interest income after provision for credit losses	**6,766,151**	6,356,300	**13,810,621**	12,496,666
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**1,614,898**	1,394,692	**3,196,805**	2,775,263
Loan fees	**62,596**	37,664	**106,468**	79,806
Financially related services income	**3,439**	3,293	**5,376**	5,227
Gain on sale of premises and equipment, net	**-**	119,306	**24,900**	134,789
Other noninterest income	**25**	50,835	**60,361**	70,981
Total noninterest income	**1,680,958**	1,605,790	**3,393,910**	3,066,066
NONINTEREST EXPENSES				
Salaries and employee benefits	**1,140,304**	1,084,648	**2,499,096**	2,241,975
Directors' expense	**137,435**	79,331	**278,101**	176,735
Purchased services	**122,786**	112,448	**260,953**	382,170
Travel	**38,885**	41,932	**94,809**	100,304
Occupancy and equipment	**129,952**	109,259	**308,297**	249,209
Communications	**26,543**	26,385	**50,115**	58,854
Advertising	**92,205**	91,596	**204,435**	209,627
Public and member relations	**96,185**	76,270	**181,535**	127,476
Supervisory and exam expense	**83,725**	78,964	**167,450**	157,929
Insurance fund premiums	**362,222**	449,536	**802,457**	804,323
Other noninterest expense	**105,425**	96,813	**185,888**	141,054
Total noninterest expenses	**2,335,667**	2,247,182	**5,033,136**	4,649,656
NET INCOME	**6,111,442**	5,714,908	**12,171,395**	10,913,076
Other comprehensive income:				
Change in postretirement benefit plans	**(11,256)**	(2,608)	**(22,512)**	(5,216)
COMPREHENSIVE INCOME	**$ 6,100,186**	$ 5,712,300	**$ 12,148,883**	$ 10,907,860

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

PLAINS LAND BANK, FLCA

STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2021	$ 2,188,585	$ 147,232,063	$ 108,341	$ 149,528,989
Comprehensive income	-	10,913,076	(5,216)	10,907,860
Capital stock/participation certificates and allocated retained earnings issued	197,120	-	-	197,120
Capital stock/participation certificates and allocated retained earnings retired	(154,960)	-	-	(154,960)
Patronage refunds:				
Cash	-	(9,200,000)	-	(9,200,000)
Balance at June 30, 2022	$ 2,230,745	$ 148,945,139	$ 103,125	$ 151,279,009
Balance at December 31, 2022	$ 2,267,000	$ 159,833,480	$ 301,167	$ 162,401,647
Cumulative effect of change in accounting principle (Note 1)	-	(254,714)	-	(254,714)
Balance at January 1, 2023	2,267,000	159,578,766	301,167	162,146,933
Comprehensive income	-	12,171,395	(22,512)	12,148,883
Capital stock/participation certificates and allocated retained earnings issued	177,045	-	-	177,045
Capital stock/participation certificates and allocated retained earnings retired	(125,255)	-	-	(125,255)
Patronage refunds:				
Cash	-	(10,500,000)	-	(10,500,000)
Balance at June 30, 2023	**$ 2,318,790**	**$ 161,250,161**	**$ 278,655**	**$ 163,847,606**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Plains Land Bank, FLCA (Federal Land 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 the counties of Armstrong, Briscoe, Carson, Floyd, Gray, Hale, the southwest portion of Hall, Hansford, Hemphill, Hutchinson, Lipscomb, Motley, Ochiltree, Oldham, Potter, Randall, and Roberts in the state of Texas. 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.

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 financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. 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.

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	$ 2,103,114	$ 240,474	$ 2,343,588
Liabilities:			
Allowance for credit losses on unfunded commitments	$ 96,288	$ 14,240	$ 110,528
Retained earnings:			
Unallocated retained earnings	$ 159,833,480	$ (254,714)	$ 159,578,766

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

Consistent with prior practice, loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection), circumstances indicate that collection of principal and interest is in doubt or legal action, including foreclosure or other forms of collateral conveyance, has been initiated to collect the outstanding principal and interest. At the time a loan is placed in nonaccrual status, accrued interest that is considered uncollectible is reversed (if accrued in the current year) or charged against the allowance for credit losses on loans (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 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.

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); and
- the allowance for unfunded commitments, which is presented on the balance sheet in other liabilities.

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

Methodology for Allowance for Credit Losses on Loans

The ACLL represents management's estimate of credit losses over the remaining expected life of loans. Loans are evaluated on the amortized cost basis, including premiums, discounts and fair value 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 component 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 a 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 credit 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 included, 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 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 is recorded for commitments that are unconditionally cancellable.

NOTE 2 — LOANS AND ALLOWANCE FOR CREDIT LOSSES:

A summary of loans follows:

Loan Type	**June 30, 2023 Amount**	December 31, 2022 Amount
Production agriculture:		
Real estate mortgage	**$ 883,973,918**	$ 837,434,250
Production and intermediate-term	**12,928,743**	6,637,358
Agribusiness:		
Processing and marketing	**36,715,627**	35,189,049
Farm-related business	**18,671,966**	16,627,960
Loans to cooperatives	**8,437,655**	6,105,306
Rural residential real estate	**19,068,827**	18,800,883
Energy	**15,314,904**	14,200,148
Communication	**13,029,025**	13,172,300
Agricultural export finance	**4,643,602**	2,237,859
Water and waste-water	**2,132,946**	2,466,009
Total	**$ 1,014,917,213**	$ 952,871,122

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 as of June 30, 2023:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 11,596,229	$ 39,172,139	$ 6,707,184	$ -	$ 18,303,413	$ 39,172,139
Production and intermediate-term	12,928,743	-	-	-	12,928,743	-
Agribusiness	42,386,036	-	-	-	42,386,036	-
Rural residential real estate	415,164	543,502	-	-	415,164	543,502
Energy	15,314,904	-	-	-	15,314,904	-
Communication	13,029,025	-	-	-	13,029,025	-
Agricultural export finance	4,643,602	-	-	-	4,643,602	-
Water and waste-water	2,132,946	-	-	-	2,132,946	-
Total	$ 102,446,649	$ 39,715,641	$ 6,707,184	$ -	$ 109,153,833	$ 39,715,641

Credit Quality

Credit risk arises from the potential inability of an obligor to meet its payment obligation and exists in the Association's outstanding loans, letters of credit and unfunded loan commitments. The entity 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 association that make 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 presents credit quality indicators by loan type and the related principal balance:

	Term Loans Amortized Cost by Origination Year 2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
Real estate mortgage							
Acceptable	$ 85,798,650	$ 165,334,485	$ 178,605,107	$ 404,261,716	$ 36,590,029	$ 4,112,412	$ 874,702,399
OAEM	-	158,969	-	160,682	-	-	319,651
Substandard/Doubtful	-	1,969,860	4,683,270	1,899,232	-	399,506	8,951,868
	$ 85,798,650	$ 167,463,314	$ 183,288,377	$ 406,321,630	$ 36,590,029	$ 4,511,918	$ 883,973,918
Production and intermediate-term							
Acceptable	$ -	$ 2,507,695	$ -	$ 956,543	$ 9,464,505	$ -	$ 12,928,743
OAEM	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-
	$ -	$ 2,507,695	$ -	$ 956,543	$ 9,464,505	$ -	$ 12,928,743
Agribusiness							
Acceptable	$ 2,632,195	$ 21,290,013	$ 8,514,280	$ 17,495,669	$ 13,893,091	$ -	$ 63,825,248
OAEM	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-
	$ 2,632,195	$ 21,290,013	$ 8,514,280	$ 17,495,669	$ 13,893,091	$ -	$ 63,825,248
Rural residential real estate							
Acceptable	$ 1,342,693	$ 4,665,818	$ 4,161,931	$ 8,898,385	$ -	$ -	$ 19,068,827
OAEM	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-
	$ 1,342,693	$ 4,665,818	$ 4,161,931	$ 8,898,385	$ -	$ -	$ 19,068,827
Energy							
Acceptable	$ 1,997,259	$ -	$ -	$ 12,688,905	$ 71,988	$ -	$ 14,758,152
OAEM	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	556,712	40	-	556,752
	$ 1,997,259	$ -	$ -	$ 13,245,617	$ 72,028	$ -	$ 15,314,904
Communications							
Acceptable	$ 3,508,541	$ 1,516,854	$ -	$ 8,003,630	$ -	$ -	$ 13,029,025
OAEM	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-
	$ 3,508,541	$ 1,516,854	$ -	$ 8,003,630	$ -	$ -	$ 13,029,025
Agricultural export finance							
Acceptable	$ -	$ 4,494,901	$ -	$ -	$ 148,701	$ -	$ 4,643,602
OAEM	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-
	$ -	$ 4,494,901	$ -	$ -	$ 148,701	$ -	$ 4,643,602
Water and Waste Water							
Acceptable	$ -	$ -	$ 1,697,659	$ -	$ 435,287	$ -	$ 2,132,946
OAEM	-	-	-	-	-	-	-
Substandard/Doubtful	-	-	-	-	-	-	-
	$ -	$ -	$ 1,697,659	$ -	$ 435,287	$ -	$ 2,132,946
Total Loans							
Acceptable	$ 95,279,338	$ 199,809,766	$ 192,978,977	$ 452,304,848	$ 60,603,601	$ 4,112,412	$ 1,005,088,942
OAEM	-	158,969	-	160,682	-	-	319,651
Substandard/Doubtful	-	1,969,860	4,683,270	2,455,944	40	399,506	9,508,620
	$ 95,279,338	$ 201,938,595	$ 197,662,247	$ 454,921,474	$ 60,603,641	$ 4,511,918	$ 1,014,917,213

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

	June 30, 2023	December 31, 2022
Real estate mortgage		
Acceptable	**99.0** %	99.5 %
OAEM	**-**	-
Substandard/doubtful	**1.0**	0.5
	100.0	100.0
Production and intermediate-term		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Agribusiness		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Rural residential real estate		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Energy		
Acceptable	**96.4**	92.9
OAEM	**-**	-
Substandard/doubtful	**3.6**	7.1
	100.0	100.0
Communication		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Agricultural export finance		
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
Total loans		
Acceptable	**99.0**	99.5
OAEM	**-**	-
Substandard/doubtful	**1.0**	0.5
	100.0 %	100.0 %

The Association had accrued interest receivable on loans of $17,757,644 and $19,264,965 on June 30, 2023, and December 31, 2022 respectively, which have been excluded from the amortized cost of loans and reported separately in the Balance Sheet.

The following table reflects nonperforming assets, which consist of nonaccrual loans, accruing loans 90 days or more delinquent, and other property owned and related credit quality statistics:

	June 30, 2023	December 31, 2022
Nonaccrual loans:		
Energy	$ 556,752	$ 1,005,885
Total nonaccrual loans	556,752	1,005,885
Accruing loans 90 days or more past due:		
Real estate mortgage	$ 6,318,381	$ -
Total accruing loans 90 days or more past due	6,318,381	-
Other property owned	-	-
Total nonperforming assets	$ 6,875,133	$ 1,005,885
Nonaccrual loans as a percentage of total loans	0.05%	0.11%
Nonperforming assets as a percentage of total loans and other property owned	0.68%	0.11%
Nonperforming assets as a percentage of capital	4.20%	0.62%

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

	June 30, 2023			Interest Income Recognized For the Six Months Ended June 30, 2023
	Amortized Cost with Allowance	without Allowance	Total	
Nonaccrual loans:				
Energy	$ 556,712	$ 40	$ 556,752	$ -
Total nonaccrual loans	$ 556,712	$ 40	$ 556,752	$ -

The following tables provide an aging analysis of past due loans at amortized cost by portfolio segment 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	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 899,717	$ 6,318,381	$ 7,218,098	$ 876,755,820	$ 883,973,918	$ 6,318,381
Processing and marketing	-	-	-	36,715,627	36,715,627	-
Rural residential real estate	-	-	-	19,068,827	19,068,827	-
Farm-related business	-	-	-	18,671,966	18,671,966	-
Energy	-	40	40	15,314,864	15,314,904	-
Communication	-	-	-	13,029,025	13,029,025	-
Production and intermediate term	-	-	-	12,928,743	12,928,743	-
Loans to cooperatives	-	-	-	8,437,655	8,437,655	-
Agricultural export finance	-	-	-	4,643,602	4,643,602	-
Water and waste-water	-	-	-	2,132,946	2,132,946	-
Total	$ 899,717	$ 6,318,421	$ 7,218,138	$ 1,007,699,075	$ 1,014,917,213	$ 6,318,381

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	$ 2,392,781	$ -	$ 2,392,781	$ 853,582,676	$ 855,975,457	$ -
Production and intermediate term	-	-	-	6,678,123	6,678,123	-
Processing and marketing	-	-	-	35,429,252	35,429,252	-
Farm-related business	-	-	-	16,735,924	16,735,924	-
Loans to cooperatives	-	-	-	6,136,340	6,136,340	-
Rural residential real estate	-	-	-	18,885,149	18,885,149	-
Energy	-	957	957	14,352,033	14,352,990	-
Communication	-	-	-	13,209,305	13,209,305	-
Agricultural export finance	-	-	-	2,263,995	2,263,995	-
Water and waste-water	-	-	-	2,469,552	2,469,552	-
Total	$ 2,392,781	$ 957	$ 2,393,738	$ 969,742,349	$ 972,136,087	$ -

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 for each individual 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 System Association's boards of directors have generally established more restrictive lending limits. This limit applies to associations with long-term and short- and intermediate-term lending authorities, and to the Bank's (other than CoBank) loan participations.

Effective January 1, 2023, the System 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	Communi-cations	Energy	Water and Waste Water	Rural Residential Real Estate	Apricultural Export Finance	Total
Allowance for Credit Losses on Loans:									
Balance at March 31, 2023	$ 1,837,278	$ 5,134	$ 82,446	$ 5,619	$ 248,196	$ 1,608	$ 45,852	$ 1,694	$ 2,227,827
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	3,677	-	-	-	3,677
Provision for (reversal of) credit losses	374,265	1,122	(7,559)	2,217	(81,928)	(249)	(1,378)	(103)	286,387
Other	-	-	-	-	-	-	-	-	-
Balance at June 30, 2023	$ 2,211,543	$ 6,256	$ 74,887	$ 7,836	$ 169,945	$ 1,359	$ 44,474	$ 1,591	$ 2,517,891
Balance at December 31, 2022	$ 1,529,278	$ 19,406	$ 237,504	$ 21,524	$ 253,991	$ 6,557	$ 31,616	$ 3,238	$ 2,103,114
Cumulative effect of a change in accounting principle	401,588	(15,736)	(134,133)	(15,296)	(6,039)	(4,656)	16,251	(1,505)	240,474
Balance at January 1, 2023	$ 1,930,866	$ 3,670	$ 103,371	$ 6,228	$ 247,952	$ 1,901	$ 47,867	$ 1,733	$ 2,343,588
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	3,677	-	-	-	3,677
Provision for (reversal of) credit losses	280,677	2,586	(28,484)	1,608	(81,684)	(542)	(3,393)	(142)	170,626
Other	-	-	-	-	-	-	-	-	-
Balance at June 30, 2023	$ 2,211,543	$ 6,256	$ 74,887	$ 7,836	$ 169,945	$ 1,359	$ 44,474	$ 1,591	$ 2,517,891
Balance at March 31, 2022 [1]	$ 1,623,800	$ 14,012	$ 202,414	$ 21,600	$ 449,971	$ 6,055	$ 27,847	$ 5,627	$ 2,351,326
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-
Provision for (reversal of) credit losses	(65,784)	1,286	20,457	(113)	(10,417)	764	2,459	295	(51,053)
Other	(1,931)	1,976	6,866	-	(10)	2,864	(129)	550	10,186
Balance at June 30, 2022	$ 1,556,085	$ 17,274	$ 229,737	$ 21,487	$ 439,544	$ 9,683	$ 30,177	$ 6,472	$ 2,310,459
Balance at December 31, 2021	$ 1,666,611	$ 13,512	$ 187,515	$ 21,384	$ 450,054	$ 5,773	$ 25,857	$ 5,294	$ 2,376,000
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-
Provision for (reversal of) credit losses	(108,991)	1,650	28,772	103	(10,482)	80	4,320	628	(83,920)
Other	(1,535)	2,112	13,450	-	(28)	3,830	-	550	18,379
Balance at June 30, 2022	$ 1,556,085	$ 17,274	$ 229,737	$ 21,487	$ 439,544	$ 9,683	$ 30,177	$ 6,472	$ 2,310,459
Allowance for Unfunded Commitments:									
Balance at March 31, 2023	$ 30,552	$ 3,066	$ 33,996	$ -	$ 634	$ 387	$ -	$ 1,345	$ 69,980
Provision for unfunded commitments	3,008	1,574	34	-	6	20	-	242	4,884
Balance at June 30, 2023	$ 33,560	$ 4,640	$ 34,030	$ -	$ 640	$ 407	$ -	$ 1,587	$ 74,864
Balance at December 31, 2022	$ 10,868	$ 7,035	$ 70,498	$ -	$ 896	$ 3,175	$ -	$ 3,816	$ 96,288
Cumulative effect of a change in accounting principle	20,135	(4,587)	2,920	-	(158)	(2,660)	-	(1,410)	14,240
Balance at January 1, 2023	$ 31,003	$ 2,448	$ 73,418	$ -	$ 738	$ 515	$ -	$ 2,406	$ 110,528
Provision for unfunded commitments	2,557	2,192	(39,388)	-	(98)	(108)	-	(819)	(35,664)
Balance at June 30, 2023	$ 33,560	$ 4,640	$ 34,030	$ -	$ 640	$ 407	$ -	$ 1,587	$ 74,864
Balance at March 31, 2022	$ 7,185	$ 8,649	$ 42,720	$ -	$ 969	$ 4,258	$ 175	$ 1,661	$ 65,617
Provision for unfunded commitments	2,107	(1,976)	(6,864)	-	9	(2,864)	(175)	(422)	$ (10,185)
Balance at June 30, 2022	$ 9,292	$ 6,673	$ 35,856	$ -	$ 978	$ 1,394	$ -	$ 1,239	$ 55,432
Balance at December 31, 2021	$ 7,583	$ 8,785	$ 49,304	$ -	$ 951	$ 5,224	$ 175	$ 1,789	$ 73,811
Provision for unfunded commitments	1,709	(2,112)	(13,448)	-	27	(3,830)	(175)	(550)	$ (18,379)
Balance at June 30, 2022	$ 9,292	$ 6,673	$ 35,856	$ -	$ 978	$ 1,394	$ -	$ 1,239	$ 55,432

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

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 impaired loans under nonaccrual or accruing restructured loans. As of June 30, 2022, the Association had no troubled debt restructured loans. The following table provides information on outstanding loans restructured in troubled debt restructurings:

	December 31, 2022	
	Loans Modified as Troubled Debt Restructurings	Troubled Debt Restructurings in Nonaccrual Status*
Energy	$ 337,706	$ 337,706
Total	$ 337,706	$ 337,706

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

Loan Modifications

During the three and six months ended June 30, 2023, the Association modified a loan to a borrower experiencing financial difficulty in the real estate mortgage sector with an amortized cost of $399,506 as of June 30, 2023, through an interest rate reduction and term extension. The interest rate was reduced from 8.81 percent to 8.58 percent, and the term was extended 1,826 days. Accrued interest receivable related to this loan modification was $5,736 on June 30, 2023. Subsequent to this modification, the loan has not experienced default and as of June 30, 2023, is current in all required payments. The Association has no additional commitments to lend to this borrower as of June 30, 2023.

NOTE 3 —LEASES:

The components of lease expense were as follows:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2023	June 30, 2022	**June 30, 2023**	June 30, 2022
Operating lease cost	**$ 23,261**	$ 22,901	**$ 46,522**	$ 45,802
Net lease cost	**$ 23,261**	$ 22,901	**$ 46,522**	$ 45,802

Other information related to leases was as follows:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2023	June 30, 2022	**June 30, 2023**	June 30, 2022
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows for operating leases	**$ 24,375**	$ 23,615	**$ 48,483**	$ 46,965
Right-of-use assets obtained in exchange for new lease obligations:				
Operating leases			**$ 158,027**	$ 217,940

Lease term and discount rate are as follows:

	June 30, 2023	December 31, 2022
Weighted average remaining lease term in years		
Operating leases	**1.87**	2.23
Weighted average discount rate		
Operating leases	**2.48%**	2.46%

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

	Operating Leases
2023	$ 47,415
2024	89,530
2025	34,386
2026	-
Thereafter	-
Total lease payments	$ 171,331
Less: interest	3,944
Total	$ 167,387

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.

	June 30, 2023	December 31, 2022
Capital stock and participation certificates	**$ 2,318,790**	$ 2,267,000
Accumulated other comprehensive loss	**278,655**	301,167
Retained earnings[1]	**161,250,161**	159,833,480
Total Capital	**$ 163,847,606**	162,401,647

[1] Retained earnings for the quarter ended June 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 Minimums with Buffer**	**As of June 30, 2023**	As of December 31, 2022
Common equity tier 1 ratio	7.00%	13.65%	14.02%
Tier 1 capital ratio	8.50%	13.65%	14.02%
Total capital ratio	10.50%	13.88%	14.26%
Permanent capital ratio	7.00%	13.68%	14.05%
Non-risk-adjusted:			
Tier 1 leverage ratio	5.00%	13.79%	14.23%
UREE leverage ratio	1.50%	13.57%	14.00%

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

June 30, 2023	**Common equity tier 1 ratio**	**Tier 1 capital ratio**	**Total capital ratio**	**Permanent capital ratio**
Numerator:				
Unallocated retained earnings	**$ 156,254,077**	**$ 156,254,077**	**$ 156,254,077**	**$ 156,254,077**
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**2,299,946**	**2,299,946**	**2,299,946**	**2,299,946**
Allowance for credit losses on loans and reserve for credit losses subject to certain limitations	**-**	**-**	**2,311,941**	**-**
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(17,856,756)**	**(17,856,756)**	**(17,856,756)**	**(17,856,756)**
	$ 140,697,267	**$ 140,697,267**	**$ 143,009,208**	**$ 140,697,267**
Denominator:				
Risk-adjusted assets excluding allowance	**$ 1,048,395,677**	**$ 1,048,395,677**	**$ 1,048,395,677**	**$ 1,048,395,677**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**(17,856,756)**	**(17,856,756)**	**(17,856,756)**	**(17,856,756)**
Allowance for loan losses	**-**	**-**	**-**	**(2,241,744)**
	$ 1,030,538,921	**$ 1,030,538,921**	**$ 1,030,538,921**	**$ 1,028,297,177**

December 31, 2022	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 153,284,078	$ 153,284,078	$ 153,284,078	$ 153,284,078
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	2,263,200	2,263,200	2,263,200	2,263,200
Allowance for credit losses on loans and reserve for credit losses subject to certain limitations	-	-	2,431,602	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(16,535,560)	(16,535,560)	(16,535,560)	(16,535,560)
	$ 139,011,718	$ 139,011,718	$ 141,443,320	$ 139,011,718
Denominator:				
Risk-adjusted assets excluding allowance	$ 1,008,218,437	$ 1,008,218,437	$ 1,008,218,437	$ 1,008,218,437
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(16,535,560)	(16,535,560)	(16,535,560)	(16,535,560)
Allowance for loan losses	-	-	-	(2,354,673)
	$ 991,682,877	$ 991,682,877	$ 991,682,877	$ 989,328,204

	June 30, 2023		December 31, 2022	
	Tier 1 leverage ratio	**UREE leverage ratio**	Tier 1 leverage ratio	UREE leverage ratio
Numerator:				
Unallocated retained earnings	**$ 156,254,077**	**$ 156,254,077**	$ 153,284,078	$ 153,284,078
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**2,299,946**	**-**	2,263,200	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(17,856,756)**	**(17,856,756)**	(16,535,560)	(16,535,560)
	$ 140,697,267	**$ 138,397,321**	$ 139,011,718	$ 136,748,518
Denominator:				
Total Assets	**$ 1,039,306,229**	**$ 1,039,306,229**	$ 997,091,920	$ 997,091,920
Regulatory Adjustments and Deductions:				
Regulatory deductions included in tier 1 capital	**(19,311,010)**	**(19,311,010)**	(20,302,087)	(20,302,087)
	$ 1,019,995,219	**$ 1,019,995,219**	$ 976,789,833	$ 976,789,833

The following tables present the activity in the accumulated other comprehensive income by component:

	Accumulated other comprehensive Income
Balance at January 1, 2023	**$ 301,167**
Other comprehensive income before reclassifications	**(22,512)**
Net current period other comprehensive loss	**(22,512)**
Balance at June 30, 2023	**$ 278,655**

	Accumulated other comprehensive Income
Balance at January 1, 2022	$ 108,341
Other comprehensive income before reclassifications	(5,216)
Net current period other comprehensive loss	(5,216)
Balance at June 30, 2022	$ 103,125

NOTE 5 — FAIR VALUE MEASUREMENTS:

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 13 in the 2022 Annual Report to Stockholders for a more complete description.

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

June 30, 2023	**Fair Value Measurement Using**			**Total Fair**	**Total Gains**
	Level 1	**Level 2**	**Level 3**	**Value**	**(Losses)**
Assets:					
Loans	**$ -**	**$ -**	**$ 389,372**	**$ 389,372**	**$ -**

December 31, 2022	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Assets:					
Loans	$ -	$ -	$ 760,144	$ 760,144	$ -

Valuation Techniques

As more fully discussed in Note 13 to the 2022 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an association to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see Notes to the 2022 Annual Report to Stockholders.

Loans

Fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the Association's current loan origination rates as well as management's estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

For purposes of estimating fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

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.

Commitments to Extend Credit

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the three and six months ended June 30:

Three months ended June 30:

	Other Benefits	
	2023	2022
Service cost	**$ 1,037**	$ 1,449
Interest cost	**12,140**	9,093
Amortization of prior service credits	**(992)**	(2,608)
Amortization of net actuarial gain	**(10,264)**	-
Net periodic benefit cost	**$ 1,921**	$ 7,934

Six months ended June 30:

	Other Benefits	
	2023	2022
Service cost	**$ 2,073**	$ 2,898
Interest cost	**24,279**	18,186
Amortization of prior service credits	**(1,984)**	(5,216)
Amortization of net actuarial gain	**(20,528)**	-
Net periodic benefit cost	**$ 3,840**	$ 15,868

The Association's liability for the unfunded accumulated obligation for these benefits on June 30, 2023, was $965,635 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 "other noninterest expense" in the Statement of Comprehensive Income.

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 $70,395 to the District's defined benefit pension plan in 2023. As of June 30, 2023, $117,701 of contributions have been made. The Association presently anticipates contributing an additional $117,700 to fund the defined benefit pension plan in 2023 for a total of $235,401.

NOTE 7 — 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 8 — SUBSEQUENT EVENTS:

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