# CoBank Quarterly District Financial Information September 30, 2023

# Quarterly District Financial Information

**CoBank, ACB and Affiliated Associations**

## Introduction and District Overview

CoBank, ACB (CoBank, the Bank, we, our, or us) is one of the four banks in the Farm Credit System (System) and provides loans, leases and other financial services to support agriculture, rural infrastructure and rural communities across the United States. The System is a federally chartered network of borrower-owned lending institutions composed of cooperatives and related service organizations. The System was established in 1916 by the U.S. Congress, and is a Government Sponsored Enterprise. CoBank is federally chartered under the Farm Credit Act of 1971, as amended (the Farm Credit Act), and is subject to supervision, examination, and safety and soundness regulation by an independent federal agency, the Farm Credit Administration (FCA).

We are cooperatively owned by our eligible U.S. customers. Our customers consist of agricultural cooperatives; other food and agribusiness companies; rural power, communications and water cooperatives and companies; rural community facilities; Agricultural Credit Associations (Associations), which are regulated, farmer-owned financial institutions and members of the System; and other businesses that serve agriculture and rural communities. The Associations originate and service long-term real estate mortgage loans as well as production and intermediate-term loans for agricultural and other purposes to full and part-time farmers. Associations may also make loans to, among others, processing and marketing entities, farm-related businesses, and rural residents for home purchase and improvements. The Associations may also purchase eligible loan participations from System entities and other lending institutions. Additionally, the Associations may serve as an intermediary in offering multi-peril crop insurance and credit life insurance, and providing additional financial services to borrowers.

We are chartered by the FCA to serve the Associations that provide credit and related financial services to or for the benefit of eligible borrowers/shareholders for qualified purposes in specific geographic areas in the United States. We collectively refer to these entities as our affiliated Associations. The Associations are not authorized by the Farm Credit Act to participate directly in the issuance of Systemwide bonds, medium term notes and discount notes (collectively referred to as Systemwide Debt Securities). Therefore, we are the primary funding source for our affiliated Associations. As of September 30, 2023, we had 17 affiliated Associations serving customers in 23 states across the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States.

Our affiliated Associations are considered customers and thus operate independently and maintain an arms-length relationship with us, except to the extent that the Farm Credit Act requires us, as the funding bank, to monitor and approve certain activities of these Associations. As authorized by the FCA, the financial information of affiliated Associations is not included in the condensed consolidated quarterly financial statements presented in CoBank's September 30, 2023 Quarterly Report to Shareholders. However, the FCA authorizes CoBank to present combined Bank and Association quarterly financial information in a separate report. CoBank does not have the corporate or direct regulatory authority to compel its affiliated Associations to disclose information or to establish and maintain their disclosure controls and procedures or internal controls over financial reporting. Accordingly, CoBank's preparation of this District Report and the establishment of adequate controls relating to this District Report are dependent on our affiliated Associations themselves satisfying their regulatory obligations and complying with agreed upon disclosure policies and procedures. Failure by an affiliated Association to provide accurate or timely information for District financial reporting or to have adequate disclosure controls or procedures or internal controls over financial reporting, as required by regulation or as agreed to under the disclosure policies and procedures, could jeopardize the accuracy of certain information in this District Report or CoBank's ability to timely issue this District Report.

The Financial Highlights, Discussion and Analysis, and the Condensed Combined Balance Sheets and Statements of Income included on the following pages present unaudited combined financial information and related analysis of CoBank and its affiliated Associations, which are collectively referred to as the "District." As part of the combining process, all significant transactions between CoBank and the Associations, including loans made by the Bank to the affiliated Associations and the interest income/interest expense related thereto, and investments of the affiliated Associations in the Bank and the earnings related thereto, have been eliminated.

# Quarterly District Financial Information

**CoBank, ACB and Affiliated Associations**

## Financial Highlights

($ in Millions) (Unaudited)

| | September 30, 2023 | December 31, 2022 |
|---|---|---|
| Total Loans | **$ 154,191** | $ 152,605 |
| Less: Allowance for Loan Losses | **995** | 988 |
| Net Loans | **153,196** | 151,617 |
| Total Assets | **202,868** | 203,936 |
| Total Shareholders' Equity | **23,608** | 22,631 |

| For the Nine Months Ended September 30, | 2023 | 2022 |
|---|---|---|
| Net Interest Income | **$ 3,184** | $ 3,048 |
| Provision for Credit Losses | **173** | 55 |
| Net Fee Income | **203** | 140 |
| Net Income | **2,102** | 2,073 |
| Net Interest Margin | **2.13 %** | 2.14 % |
| Net Charge-offs / Average Loans | **0.03** | 0.02 |
| Return on Average Assets | **1.38** | 1.43 |
| Return on Average Total Shareholders' Equity | **11.97** | 11.78 |
| Operating Expense / Net Interest Income and Noninterest Income | **34.34** | 34.12 |
| Average Loans | **$ 154,508** | $ 149,282 |
| Average Earning Assets | **199,412** | 190,243 |
| Average Assets | **203,158** | 193,553 |

## Discussion and Analysis of District Results of Operations and Financial Condition

District average loan volume increased 4 percent to $154.5 billion in the first nine months of 2023, compared to $149.3 billion for the same period of 2022. The increase in average loan volume primarily reflected growth in rural power, agricultural export finance, production and intermediate-term and communications loans. These increases were partially offset by a decrease in agribusiness loans.

Average investment securities, federal funds sold and other overnight funds increased 10 percent to $44.9 billion during the first nine months of 2023, compared to $41.0 billion in the same prior-year period. The increase in average investments, federal funds sold and other overnight funds was primarily at CoBank to maintain its liquidity reserve associated with higher loan volume and to take advantage of favorable investment spread opportunities in the marketplace.

District net income increased to $2.102 billion for the nine months ended September 30, 2023, compared to $2.073 billion for the same period in 2022. The increase in current period earnings primarily resulted from an increase in net interest income and noninterest income, partially offset by a higher provision for credit losses and higher operating expenses.

District net interest income increased $136 million, or 4 percent, to $3.184 billion for the nine months ended September 30, 2023 from $3.048 billion for the same period in 2022. The increase in net interest income was largely driven by growth in average loan volume across the District partially offset by lower earnings on balance sheet positioning at the Bank. The District's overall net interest margin was 2.13 percent for the first nine months of 2023, compared to 2.14 percent for the same period in 2022.

The District recorded a provision for credit losses of $173 million for the nine months ended September 30, 2023, compared to $55 million for the same period of 2022. CoBank recorded a provision for credit losses of $70 million million in the first nine months of 2023, compared to $75 million during the 2022 period. The 2023 provision for credit losses at CoBank primarily relates to higher reserves resulting from credit quality deterioration within certain sectors of its Rural Infrastructure operating segment and forecasts of deteriorating macroeconomic conditions impacting many of its lending portfolios. The 2022 provision for credit losses at CoBank primarily related to increased agribusiness lending activity and to a lesser extent higher specific reserves for a small number of customers as well as a reserve for a power infrastructure customer that was subsequently charged off. The Associations recorded a net combined provision for credit losses of $103 million in the first nine months of 2023, compared to a credit loss reversal of $20 million in the same period of 2022. The net combined 2023 provision for credit losses at the Associations was primarily due to an increased provision for two Associations that merged in 2023 and reflected the impact of an accounting change for credit losses, deterioration in credit quality and higher loan volume at several Associations. The net combined 2022 credit loss reversal at the Associations was primarily due to reversals at two Associations resulting from changes in loan loss methodology partially offset by provisions for credit losses due to higher Association lending activity. As discussed on page 16, District institutions adopted the Current Expected Credit Losses (CECL) accounting standard on January 1, 2023. CECL is a significant change and may introduce a higher level of volatility in credit loss provisions going forward.

District noninterest income increased $88 million to $431 million in the first nine months of 2023 from $343 million for the same period in 2022. Noninterest income is primarily composed of fee income, patronage income, financially-related services income, loan prepayment income, gains and losses on early extinguishments of debt and gains and losses on derivatives. Net fee income increased $63 million in the 2023 period primarily at the Bank due to a higher volume of transaction-related lending fees. Patronage income increased by $18 million during the first nine months of 2023 compared to 2022 from a higher level of District loans sold to other System institutions. Losses on interest rate swaps and other derivatives decreased $29 million in the first nine months of 2023 compared to 2022 resulting from the impact of market interest rate changes in the 2023 period on derivatives not designated as hedging instruments. Sales of investment securities by the Bank totaled losses of $7 million for the nine months ended September 30, 2023 compared to gains of $2 million the prior-year period. Prepayment income, net of gains and losses on early extinguishments of debt, totaled income of $5 million and $13 million for the nine month periods ended September 30, 2023 and 2022 periods, respectively. The decrease is primarily due to lower prepayment income from the higher interest rate environment in 2023 that resulted in lower retail customer loan refinancing activity. Gains and losses on early extinguishments of debt are generally incurred to offset the current and prospective impact of prepayments of loans and investments.

District operating expenses increased $84 million to $1.241 billion in the first nine months of 2023 from $1.157 billion for the same period of 2022. The higher level of operating expenses was primarily driven by increases in employee compensation, information services, other and general and administrative expenses somewhat offset by lower purchased services and Insurance Fund premium expenses. Employee compensation expense increased $47 million in the first nine months of 2023. The increase in employee compensation expense was driven by an increase in number of employees, as well as, merit and other pay increases. Information services expense increased $25 million in the first nine months of 2023 compared to the same period of 2022 due to greater software subscription, maintenance and amortization expenditures to enhance and maintain service offerings and technology platforms. Other operating expenses increased $29 million in the first nine months of 2023 compared to the 2022 period due to increases in travel and customer meeting expenses resulting from lapsed COVID-19 restrictions. General and administrative expenses increased $11 million in 2023 driven by higher public and member relations expenses, temporary labor expenses and other administrative costs. Purchased services expenses decreased $19 million in the first nine months of 2023 compared to 2022 largely due to a change in classification of certain expenses at an Association that beginning in 2023 are included in information services expenses. Insurance Fund premium expense decreased $8 million in the first nine months of 2023 compared to the 2022 period due to lower Insurance Fund premium rates partially offset by higher insured debt obligations. Insurance Fund premium rates were 18 basis points and 20 basis points of average outstanding adjusted insured debt obligations for the first nine months of 2023 and 2022, respectively.

District income tax expense decreased $7 million to $99 million in the first nine months of 2023, compared to $106 million in the same period of 2022 due to an increase in earnings attributable to non-taxable business activities for the first nine months of 2023. The income tax expense at the District predominantly relates to CoBank, as a substantial majority of the business activities at Associations are exempt from federal income tax.

## Loan Portfolio

The following table presents the District's outstanding loans classified in accordance with the FCA's loan types.

($ in Millions)

**District Loans by Loan Type**

| | September 30, 2023 | December 31, 2022 |
|---|---|---|
| Real Estate Mortgage | **$ 46,258** | $ 46,475 |
| Nonaffiliated Associations | **6,039** | 5,654 |
| Production and Intermediate-term | **22,700** | 21,907 |
| Agribusiness: | | |
| Loans to Cooperatives | **12,683** | 16,405 |
| Processing and Marketing | **14,706** | 13,327 |
| Farm Related Businesses | **2,736** | 2,667 |
| Communications | **7,660** | 6,920 |
| Rural Power | **24,961** | 22,370 |
| Water and Waste | **3,635** | 2,966 |
| Agricultural Export Finance | **7,794** | 9,243 |
| Rural Residential Real Estate | **369** | 408 |
| Lease Receivables | **4,503** | 4,149 |
| Other | **147** | 114 |
| **Total** | **$ 154,191** | $ 152,605 |

Overall District loan volume increased $1.6 billion to $154.2 billion at September 30, 2023, compared to $152.6 billion at December 31, 2022. There were increases in rural power, processing and marketing, production and intermediate-term and communication loans, partially offset by decreases in loans to cooperatives and agricultural export finance loans.

### Portfolio Diversification

Loan concentrations exist when there are amounts loaned to multiple borrowers engaged in similar activities, or within close proximity, which could cause them to be similarly impacted by economic or other conditions. Credit risk in the District's loan portfolio is spread broadly among customers, industries and geographic territory. The District serves a diversified spectrum of borrowers up and down the agricultural value chain. Association retail loans in the District loan portfolio are concentrated in the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States. CoBank's retail loan portfolio extends across the United States, with moderate levels of concentration in the Midwest region of the country and in the farm supply, grain and marketing, dairy and electric distribution sectors.

The following tables present the District's combined loan portfolio by primary business/commodity and geographic distribution, as a percent of total loans for the periods presented.

**Distribution by Primary Business / Commodity**

| | September 30, 2023 | December 31, 2022 |
|---|---|---|
| Fruits, Nuts and Vegetables | **17** % | 16 % |
| Farm Supply, Grain and Marketing | **9** | 11 |
| Electric Distribution | **7** | 6 |
| Dairy | **6** | 9 |
| Cattle | **6** | 6 |
| Forest Products | **6** | 5 |
| Agricultural Export Finance | **5** | 6 |
| Livestock, Fish and Poultry | **5** | 4 |
| Field Crops Except Grains | **4** | 4 |
| Farm Related Business Services | **4** | 5 |
| Nonaffiliated Associations | **4** | 4 |
| Regulated Utilities | **4** | 4 |
| Generation and Transmission | **3** | 3 |
| Leasing | **3** | 3 |
| Rural Home | **2** | 2 |
| Other | **15** | 12 |
| **Total** | **100** % | 100 % |

**Geographic Distribution**

| | September 30, 2023 | December 31, 2022 |
|---|---|---|
| California | **22** % | 24 % |
| Texas | **5** | 6 |
| Kansas | **5** | 6 |
| New York | **5** | 5 |
| Washington | **5** | 4 |
| Colorado | **4** | 4 |
| Idaho | **3** | 3 |
| Oklahoma | **3** | 3 |
| Illinois | **2** | 3 |
| Oregon | **2** | 2 |
| Minnesota | **2** | 2 |
| Ohio | **2** | 2 |
| Florida | **2** | 2 |
| Georgia | **2** | 1 |
| Other (less than 2 percent each for the current year) | **31** | 27 |
| **Total States** | **95** % | 94 % |
| Latin America | **2** | 3 |
| Asia | **2** | 2 |
| Europe, Middle East and Africa | **1** | 1 |
| **Total International** | **5** % | 6 % |
| **Total** | **100** % | 100 % |

### Loan Quality

One credit quality indicator utilized by the Bank and Associations is the FCA Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality,
- Special Mention – assets are currently collectible but exhibit some potential weakness,
- Substandard – assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan,
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable, and
- Loss – assets are considered uncollectible.

The following table presents loans, classified by management at the various District entities pursuant to the FCA's Uniform Loan Classification System, as a percent of total loans.

**District Loan Quality**

| | September 30, 2023 | December 31, 2022[1] |
|---|---|---|
| Acceptable | **95.06 %** | 96.17 % |
| Special Mention | **2.86** | 2.04 |
| Substandard | **2.07** | 1.78 |
| Doubtful | **0.01** | 0.01 |
| Loss | **—** | — |
| **Total** | **100.00 %** | 100.00 % |

[1] Prior to the adoption of CECL on January 1, 2023, loan quality ratios included accrued interest.

Overall loan quality within the District remains strong, notwithstanding some credit quality deterioration. Acceptable loans were 95.06 percent of total loans at September 30, 2023, compared to 96.17 percent at December 31, 2022. Special Mention loans increased to 2.86 percent of total loans at September 30, 2023, compared to 2.04 percent at December 31, 2022 due to credit quality changes primarily related to real estate mortgage, production and intermediate-term, communication and rural power loans. The level of adversely classified loans ("Substandard", "Doubtful" and "Loss") as a percent of total loans increased to 2.08 percent percent at September 30, 2023, compared to 1.79 percent at December 31, 2022 due primarily to credit quality changes related to real estate mortgage and production and intermediate-term loans.

# Quarterly District Financial Information

**CoBank, ACB and Affiliated Associations**

The following table presents the District's loans, classified by management pursuant to our regulator's Uniform Loan Classification System. As required under CECL, loan vintage information, including term loans, revolving loans and revolving loans converted to term loans, is also presented within the credit quality information for the September 30, 2023 period only.

**Vintage by Credit Quality Indicator**
**As of September 30, 2023**

| | Term Loans by Origination Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ($ in Millions) | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Total Term Loans | Revolving Loans | Revolving Loans Converted to Term | Total Loans |
| **Real Estate Mortgage** | | | | | | | | | | |
| Acceptable | $ 3,143 | $ 6,156 | $ 7,474 | $ 6,270 | $ 3,716 | $ 13,801 | $ 40,560 | $ 2,358 | $ 338 | $ 43,256 |
| Special Mention | 93 | 183 | 176 | 282 | 148 | 695 | 1,577 | 124 | 30 | 1,731 |
| Substandard | 33 | 186 | 113 | 163 | 215 | 453 | 1,163 | 89 | 18 | 1,270 |
| Doubtful | - | - | - | - | - | 1 | 1 | - | - | 1 |
| Loss | - | - | - | - | - | - | - | - | - | - |
| **Total** | $ 3,269 | $ 6,525 | $ 7,763 | $ 6,715 | $ 4,079 | $ 14,950 | $ 43,301 | $ 2,571 | $ 386 | $ 46,258 |
| Gross Charge-offs(1) | $ - | $ - | $ - | $ - | $ 1 | $ - | $ 1 | $ - | $ - | $ 1 |
| **Nonaffiliated Associations** | | | | | | | | | | |
| Acceptable | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 6,039 | $ - | $ 6,039 |
| Special Mention | - | - | - | - | - | - | - | - | - | - |
| Substandard | - | - | - | - | - | - | - | - | - | - |
| Doubtful | - | - | - | - | - | - | - | - | - | - |
| Loss | - | - | - | - | - | - | - | - | - | - |
| **Total** | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 6,039 | $ - | $ 6,039 |
| Gross Charge-offs(1) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| **Production and Intermediate-Term** | | | | | | | | | | |
| Acceptable | $ 1,865 | $ 2,474 | $ 1,259 | $ 1,190 | $ 754 | $ 1,742 | $ 9,284 | $ 11,598 | $ 105 | $ 20,987 |
| Special Mention | 95 | 83 | 46 | 35 | 87 | 33 | 379 | 542 | 6 | 927 |
| Substandard | 125 | 122 | 46 | 66 | 66 | 26 | 451 | 277 | 50 | 778 |
| Doubtful | - | 2 | - | 2 | - | 3 | 7 | - | 1 | 8 |
| Loss | - | - | - | - | - | - | - | - | - | - |
| **Total** | $ 2,085 | $ 2,681 | $ 1,351 | $ 1,293 | $ 907 | $ 1,804 | $ 10,121 | $ 12,417 | $ 162 | $ 22,700 |
| Gross Charge-offs(1) | $ - | $ 9 | $ 1 | $ - | $ 9 | $ - | $ 19 | $ 1 | $ - | $ 20 |
| **Agribusiness** | | | | | | | | | | |
| Acceptable | $ 3,167 | $ 4,628 | $ 3,477 | $ 2,068 | $ 1,330 | $ 3,483 | $ 18,153 | $ 9,882 | $ 194 | $ 28,229 |
| Special Mention | 36 | 155 | 160 | 74 | 40 | 75 | 540 | 346 | 11 | 897 |
| Substandard | 73 | 68 | 90 | 165 | 15 | 138 | 549 | 433 | 10 | 992 |
| Doubtful | 4 | - | 1 | - | - | - | 5 | 2 | - | 7 |
| Loss | - | - | - | - | - | - | - | - | - | - |
| **Total** | $ 3,280 | $ 4,851 | $ 3,728 | $ 2,307 | $ 1,385 | $ 3,696 | $ 19,247 | $ 10,663 | $ 215 | $ 30,125 |
| Gross Charge-offs(1) | $ 2 | $ - | $ 2 | $ - | $ - | $ 4 | $ 8 | $ 5 | $ 1 | $ 14 |
| **Communications** | | | | | | | | | | |
| Acceptable | $ 1,375 | $ 1,593 | $ 1,214 | $ 1,018 | $ 547 | $ 954 | $ 6,701 | $ 553 | $ - | $ 7,254 |
| Special Mention | - | 140 | 52 | 111 | 13 | 69 | 385 | 9 | - | 394 |
| Substandard | - | 11 | - | - | - | - | 11 | 1 | - | 12 |
| Doubtful | - | - | - | - | - | - | - | - | - | - |
| Loss | - | - | - | - | - | - | - | - | - | - |
| **Total** | $ 1,375 | $ 1,744 | $ 1,266 | $ 1,129 | $ 560 | $ 1,023 | $ 7,097 | $ 563 | $ - | $ 7,660 |
| Gross Charge-offs(1) | $ - | $ - | $ - | $ - | $ - | $ 1 | $ 1 | $ - | $ - | $ 1 |
| **Rural Power** | | | | | | | | | | |
| Acceptable | $ 2,701 | $ 4,095 | $ 2,719 | $ 2,672 | $ 1,360 | $ 8,782 | $ 22,329 | $ 2,201 | $ - | $ 24,530 |
| Special Mention | 20 | 69 | 17 | 50 | - | 218 | 374 | - | - | 374 |
| Substandard | 11 | 10 | - | - | 1 | 29 | 51 | 5 | - | 56 |
| Doubtful | - | - | - | - | 1 | - | 1 | - | - | 1 |
| Loss | - | - | - | - | - | - | - | - | - | - |
| **Total** | $ 2,732 | $ 4,174 | $ 2,736 | $ 2,722 | $ 1,362 | $ 9,029 | $ 22,755 | $ 2,206 | $ - | $ 24,961 |
| Gross Charge-offs(1) | $ 4 | $ - | $ - | $ - | $ - | $ - | $ 4 | $ - | $ - | $ 4 |
| **Water and Waste** | | | | | | | | | | |
| Acceptable | $ 486 | $ 904 | $ 352 | $ 377 | $ 220 | $ 896 | $ 3,235 | $ 398 | $ - | $ 3,633 |
| Special Mention | - | - | - | - | - | 1 | 1 | - | - | 1 |
| Substandard | - | 1 | - | - | - | - | 1 | - | - | 1 |
| Doubtful | - | - | - | - | - | - | - | - | - | - |
| Loss | - | - | - | - | - | - | - | - | - | - |
| **Total** | $ 486 | $ 905 | $ 352 | $ 377 | $ 220 | $ 897 | $ 3,237 | $ 398 | $ - | $ 3,635 |
| Gross Charge-offs(1) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |

(1) As of and for the nine months ended September 30, 2023.

**Vintage by Credit Quality Indicator (Continued)**

**As of September 30, 2023**

| ($ in Millions) | Term Loans by Origination Year 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Total Term Loans | Revolving Loans | Revolving Loans Converted to Term Loans | Total Loans |
|---|---|---|---|---|---|---|---|---|---|---|
| **Agricultural Export Finance** | | | | | | | | | | |
| Acceptable | $ 502 | $ 226 | $ 64 | $ - | $ 14 | $ 96 | $ 902 | $ 6,877 | $ 15 | $ 7,794 |
| Special Mention | - | - | - | - | - | - | - | - | - | - |
| Substandard | - | - | - | - | - | - | - | - | - | - |
| Doubtful | - | - | - | - | - | - | - | - | - | - |
| Loss | - | - | - | - | - | - | - | - | - | - |
| **Total** | $ 502 | $ 226 | $ 64 | $ - | $ 14 | $ 96 | $ 902 | $ 6,877 | $ 15 | $ 7,794 |
| Gross Charge-offs(1) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| **Rural Residential Real Estate** | | | | | | | | | | |
| Acceptable | $ 18 | $ 29 | $ 30 | $ 24 | $ 13 | $ 248 | $ 362 | $ - | $ - | $ 362 |
| Special Mention | - | - | - | - | - | 2 | 2 | - | - | 2 |
| Substandard | - | - | - | - | - | 4 | 4 | - | - | 4 |
| Doubtful | - | - | - | - | - | 1 | 1 | - | - | 1 |
| Loss | - | - | - | - | - | - | - | - | - | - |
| **Total** | $ 18 | $ 29 | $ 30 | $ 24 | $ 13 | $ 255 | $ 369 | $ - | $ - | $ 369 |
| Gross Charge-offs(1) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| **Lease Receivables** | | | | | | | | | | |
| Acceptable | $ 832 | $ 1,120 | $ 773 | $ 588 | $ 368 | $ 660 | $ 4,341 | $ - | $ - | $ 4,341 |
| Special Mention | 11 | 17 | 19 | 12 | 7 | 18 | 84 | - | - | 84 |
| Substandard | 6 | 8 | 14 | 14 | 13 | 23 | 78 | - | - | 78 |
| Doubtful | - | - | - | - | - | - | - | - | - | - |
| Loss | - | - | - | - | - | - | - | - | - | - |
| **Total** | $ 849 | $ 1,145 | $ 806 | $ 614 | $ 388 | $ 701 | $ 4,503 | $ - | $ - | $ 4,503 |
| Gross Charge-offs(1) | $ - | $ - | $ - | $ - | $ - | $ 1 | $ 1 | $ - | $ - | $ 1 |
| **Other** | | | | | | | | | | |
| Acceptable | $ 33 | $ 1 | $ 1 | $ 1 | $ - | $ 13 | $ 49 | $ 96 | $ - | $ 145 |
| Special Mention | - | - | - | - | - | 1 | 1 | - | - | 1 |
| Substandard | - | - | - | - | - | 1 | 1 | - | - | 1 |
| Doubtful | - | - | - | - | - | - | - | - | - | - |
| Loss | - | - | - | - | - | - | - | - | - | - |
| **Total** | $ 33 | $ 1 | $ 1 | $ 1 | $ - | $ 15 | $ 51 | $ 96 | $ - | $ 147 |
| Gross Charge-offs(1) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| **Total Loans of CoBank District** | | | | | | | | | | |
| Acceptable | $ 14,122 | $ 21,226 | $ 17,363 | $ 14,208 | $ 8,322 | $ 30,675 | $ 105,916 | $ 40,002 | $ 652 | $ 146,570 |
| Special Mention | 255 | 647 | 470 | 564 | 295 | 1,112 | 3,343 | 1,021 | 47 | 4,411 |
| Substandard | 248 | 406 | 263 | 408 | 310 | 674 | 2,309 | 805 | 78 | 3,192 |
| Doubtful | 4 | 2 | 1 | 2 | 1 | 5 | 15 | 2 | 1 | 18 |
| Loss | - | - | - | - | - | - | - | - | - | - |
| **Total** | $ 14,629 | $ 22,281 | $ 18,097 | $ 15,182 | $ 8,928 | $ 32,466 | $ 111,583 | $ 41,830 | $ 778 | $ 154,191 |
| Gross Charge-offs(1) | $ 6 | $ 9 | $ 3 | $ - | $ 10 | $ 6 | $ 34 | $ 6 | $ 1 | $ 41 |

(1) As of and for the nine months ended September 30, 2023.

While overall credit quality of the District loan portfolio remains strong, credit quality deterioration in the future is possible due to market factors impacting District customers, including an ongoing volatile agricultural commodity price environment, supply chain disruptions, labor shortages, inflation, higher interest rates, weather related events, economic, trade and global economic uncertainties, as well as the wars in Ukraine and the Middle East.

Nonperforming assets (which consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned) totaled $700 million as of September 30, 2023, compared to $594 million at December 31, 2022. District nonaccrual loans increased $87 million during the first nine months of 2023. Nonaccrual loans at CoBank decreased $12 million primarily due to paydowns for a small number of customers. Nonaccrual loans at Associations increased $99 million primarily due to a small number of real estate mortgage and production and intermediate-term customers transferred to nonaccrual status. Accruing restructured loans, which previously included troubled debt restructurings, are no longer required to be accounted and reported for after the adoption of CECL on

January 1, 2023. Total accruing loans 90 days or more past due increased by $41 million during the first nine months of 2023 primarily driven by increases from production and intermediate term and rural power loans. Other property owned remained relatively flat at September 30, 2023 as compared to December 31, 2022. Nonperforming assets represented 0.45 percent and 0.38 percent of total District loan volume and other property owned at September 30, 2023 and December 31, 2022, respectively. Nonaccrual loan volume, the largest component of nonperforming assets, represented 0.41 percent of total loans at September 30, 2023 compared to 0.35 percent at December 31, 2022.

The following table displays the District's nonperforming assets for the periods presented.

($ in Millions)

**Nonperforming Assets**

| | September 30, 2023 | December 31, 2022[1] |
|---|---|---|
| **Nonaccrual Loans:** | | |
| Real Estate Mortgage | **$ 251** | $ 183 |
| Production and Intermediate-term | **214** | 150 |
| Agribusiness | **109** | 178 |
| Communications | **12** | — |
| Rural Power | **18** | 11 |
| Rural Residential Real Estate | **2** | 1 |
| Lease Receivables | **19** | 15 |
| **Total Nonaccrual Loans** | **625** | 538 |
| **Accruing Restructured Loans:** | | |
| Real Estate Mortgage | **—** | 11 |
| Production and Intermediate-term | **—** | 1 |
| Agribusiness | **—** | 8 |
| Rural Residential Real Estate | **—** | 1 |
| **Total Accruing Restructured Loans** | **—** | 21 |
| **Accruing Loans 90 Days or More Past Due:** | | |
| Real Estate Mortgage | **10** | 3 |
| Production and Intermediate-term | **16** | 1 |
| Agribusiness | **5** | — |
| Rural Power | **17** | — |
| Lease Receivables | **12** | 15 |
| **Total Accruing Loans 90 Days or More Past Due** | **60** | 19 |
| Total Nonperforming Loans | **685** | 578 |
| Other Property Owned | **15** | 16 |
| **Total Nonperforming Assets** | **$ 700** | $ 594 |
| Nonaccrual Loans as a Percentage of Total Loans | **0.41 %** | 0.35 % |
| Nonperforming Assets as a Percentage of Total Loans and Other Property Owned | **0.45** | 0.38 |
| Nonperforming Assets as a Percentage of Capital | **2.97** | 2.62 |

[1] Prior to the adoption of CECL on January 1, 2023, nonperforming assets included accruing restructured loans and accrued interest.

# Quarterly District Financial Information

**CoBank, ACB and Affiliated Associations**

The following tables present an aging of past due loans in the District for the periods presented.

($ in Millions)

**Aging of Past Due Loans**

| | 30-90 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 |
|---|---|---|---|---|---|---|
| **September 30, 2023** | | | | | | |
| Real Estate Mortgage | **$ 121** | **$ 112** | **$ 233** | **$ 46,025** | **$ 46,258** | **$ 10** |
| Nonaffiliated Associations | **—** | **—** | **—** | **6,039** | **6,039** | **—** |
| Production and Intermediate-term | **68** | **133** | **201** | **22,499** | **22,700** | **16** |
| Agribusiness | **26** | **42** | **68** | **30,057** | **30,125** | **5** |
| Communications | **—** | **—** | **—** | **7,660** | **7,660** | **—** |
| Rural Power | **1** | **29** | **30** | **24,931** | **24,961** | **17** |
| Water and Waste | **—** | **—** | **—** | **3,635** | **3,635** | **—** |
| Agricultural Export Finance | **—** | **—** | **—** | **7,794** | **7,794** | **—** |
| Rural Residential Real Estate | **2** | **—** | **2** | **367** | **369** | **—** |
| Lease Receivables | **21** | **21** | **42** | **4,461** | **4,503** | **12** |
| Other | **—** | **—** | **—** | **147** | **147** | **—** |
| Total | **$ 239** | **$ 337** | **$ 576** | **$ 153,615** | **$ 154,191** | **$ 60** |
| **December 31, 2022**[1] | | | | | | |
| Real Estate Mortgage | $ 72 | $ 46 | $ 118 | $ 46,961 | $ 47,079 | $ 3 |
| Nonaffiliated Associations | — | — | — | 5,678 | 5,678 | — |
| Production and Intermediate-term | 52 | 64 | 116 | 21,976 | 22,092 | 1 |
| Agribusiness | 41 | 39 | 80 | 32,493 | 32,573 | — |
| Communications | — | — | — | 6,936 | 6,936 | — |
| Rural Power | 47 | — | 47 | 22,432 | 22,479 | — |
| Water and Waste | — | — | — | 2,979 | 2,979 | — |
| Agricultural Export Finance | — | — | — | 9,292 | 9,292 | — |
| Rural Residential Real Estate | 2 | — | 2 | 406 | 408 | — |
| Lease Receivables | 52 | 20 | 72 | 4,077 | 4,149 | 15 |
| Other | — | — | — | 115 | 115 | — |
| Total | $ 266 | $ 169 | $ 435 | $ 153,345 | $ 153,780 | $ 19 |

[1] Prior to the adoption of CECL on January 1, 2023, aging of past due loans included accrued interest.

District entities maintain an allowance for loan losses at a level consistent with the expected credit losses identified by management of each institution, considering such factors as reasonable and supportable forecasts of agricultural and economic conditions, loan loss experience, portfolio quality, and loan portfolio composition and concentrations. CoBank and certain Associations also maintain a reserve for unfunded commitments, which totaled $138 million at September 30, 2023.

Although aggregated in the District's condensed combined financial statements, the allowance for loan losses for each District entity is particular to that institution and is not available to absorb losses realized by other District entities. The allowance for loan losses at September 30, 2023 totaled $995 million compared to $988 million at December 31, 2022. Changes in the allowance during the first nine months of 2023 included an overall provision for credit losses on loans of $175 million, which is described on page 3, a $50 million decrease due to the adoption of the CECL accounting standard, loan charge-offs of $41 million, loan recoveries of $12 million, a $59 million Association merger impact and a $30 million net transfer to the reserve for unfunded commitments.

# Quarterly District Financial Information

**CoBank, ACB and Affiliated Associations**

The following table presents detailed changes in the allowance for credit losses for loans in the District for the periods presented.

($ in Millions)

**Changes in Allowance for Loan Losses**

| | Real Estate Mortgage | Non-affiliated Associations | Production and Intermediate-term | Agri-business | Communi-cations | Rural Power | Water and Waste | Agricultural Export Finance | Rural Residential Real Estate | Lease Receivables and Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **September 30, 2023** | | | | | | | | | | | |
| **Allowance for Loan Losses** | | | | | | | | | | | |
| **Beginning Balance** | **$ 127** | **$ —** | **$ 197** | **$ 411** | **$ 52** | **$ 108** | **$ 14** | **$ 30** | **$ 1** | **$ 48** | **$ 988** |
| **Change in Accounting Principle[(1)]** | **(10)** | **—** | **(68)** | **(39)** | **39** | **15** | **10** | **8** | **1** | **(6)** | **(50)** |
| **Charge-offs** | **(1)** | **—** | **(20)** | **(14)** | **(1)** | **(4)** | **—** | **—** | **—** | **(1)** | **(41)** |
| **Recoveries** | **—** | **—** | **5** | **6** | **—** | **—** | **—** | **1** | **—** | **—** | **12** |
| **Provision for Credit Losses/ (Credit Loss Reversal)** | **21** | **—** | **49** | **40** | **20** | **41** | **2** | **(6)** | **—** | **8** | **175** |
| **Transfers (to) from Reserve for Unfunded Commitments** | **(1)** | **—** | **(8)** | **(19)** | **(2)** | **1** | **(1)** | **—** | **—** | **—** | **(30)** |
| **Association Merger Impact, Net** | **(4)** | **—** | **(33)** | **(16)** | **—** | **(1)** | **—** | **—** | **—** | **(5)** | **(59)** |
| **Ending Balance** | **$ 132** | **$ —** | **$ 122** | **$ 369** | **$ 108** | **$ 160** | **$ 25** | **$ 33** | **$ 2** | **$ 44** | **$ 995** |
| **Reserve for Unfunded Commitments** | | | | | | | | | | | |
| **Beginning Balance** | **$ 5** | **$ —** | **$ 27** | **$ 101** | **$ 16** | **$ 30** | **$ 2** | **$ 1** | **$ —** | **$ —** | **$ 182** |
| **Change in Accounting Principle[(1)]** | **(1)** | **—** | **(10)** | **(41)** | **(8)** | **(13)** | **(1)** | **—** | **—** | **—** | **(74)** |
| **Transfers from (to) Allowance for Loan Losses** | **1** | **—** | **8** | **19** | **2** | **(1)** | **1** | **—** | **—** | **—** | **30** |
| **Ending Balance** | **$ 5** | **$ —** | **$ 25** | **$ 79** | **$ 10** | **$ 16** | **$ 2** | **$ 1** | **$ —** | **$ —** | **$ 138** |
| **Allowance for Credit Losses** | **$ 137** | **$ —** | **$ 147** | **$ 448** | **$ 118** | **$ 176** | **$ 27** | **$ 34** | **$ 2** | **$ 44** | **$ 1,133** |
| **September 30, 2022** | | | | | | | | | | | |
| **Allowance for Loan Losses** | | | | | | | | | | | |
| Beginning Balance | $ 128 | $ — | $ 193 | $ 401 | $ 44 | $ 104 | $ 13 | $ 25 | $ 2 | $ 52 | $ 962 |
| Charge-offs | (1) | — | (3) | (5) | — | (20) | — | — | — | (2) | (31) |
| Recoveries | — | — | 2 | 1 | — | 1 | — | — | — | — | 4 |
| Provision for Credit Losses/ (Credit Loss Reversal) | 5 | — | (6) | 23 | 7 | 25 | 1 | 2 | — | (2) | 55 |
| Transfers to Reserve for Unfunded Commitments | (5) | — | (3) | (31) | (2) | (1) | — | — | — | — | (42) |
| Association Merger Impact, Net | (2) | — | (2) | — | — | — | — | — | — | — | (4) |
| Ending Balance | $ 125 | $ — | $ 181 | $ 389 | $ 49 | $ 109 | $ 14 | $ 27 | $ 2 | $ 48 | $ 944 |
| **Reserve for Unfunded Commitments** | | | | | | | | | | | |
| Beginning Balance | $ 3 | $ — | $ 26 | $ 74 | $ 14 | $ 29 | $ 2 | $ 2 | $ — | $ — | $ 150 |
| Transfers from Allowance for Loan Losses | 5 | — | 3 | 31 | 2 | 1 | — | — | — | — | 42 |
| Ending Balance | $ 8 | $ — | $ 29 | $ 105 | $ 16 | $ 30 | $ 2 | $ 2 | $ — | $ — | $ 192 |
| **Allowance for Credit Losses** | $ 133 | $ — | $ 210 | $ 494 | $ 65 | $ 139 | $ 16 | $ 29 | $ 2 | $ 48 | $ 1,136 |

[(1)] Effective January 1, 2023, we adopted the CECL accounting standard.

## Investment Portfolio

As the funding bank for the District, CoBank is responsible for meeting the District's funding and liquidity needs. While access to the unsecured debt capital markets remains the District's primary source of liquidity, the District also maintains a secondary source of liquidity through a high credit quality investment portfolio and other short-term liquid assets which are primarily held at CoBank. All of CoBank's investment securities are classified as "available for sale". Refer to the CoBank Annual Report for additional description of the types of investments held by the Bank and related yield information and maturities. Associations have regulatory authority to enter into certain investments that carry an explicit government guarantee and certain other securities. Association investments included U.S. Treasury debt securities classified as "available-for-sale" and mortgage backed securities issued by the Federal Agricultural Mortgage Corporation (Farmer Mac) classified as "held to maturity".

($ in Millions)

| Investment Information | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **September 30, 2023** | | | | |
| CoBank Investments[1] | **$ 37,383** | **$ 9** | **$ (2,432)** | **$ 34,960** |
| Association Investments | **1,822** | **—** | **(70)** | **1,752** |
| Total | **$ 39,205** | **$ 9** | **$ (2,502)** | **$ 36,712** |
| **December 31, 2022** | | | | |
| CoBank Investments | $ 35,222 | $ 10 | $ (2,135) | $ 33,097 |
| Association Investments | 1,537 | — | (85) | 1,452 |
| Total | $ 36,759 | $ 10 | $ (2,220) | $ 34,549 |

(1) Amortized cost includes allowance for credit losses of $4 million at September 30, 2023.

Investment securities increased to $36.7 billion at September 30, 2023 from $34.5 billion billion at December 31, 2022. The increase in investments was primarily at CoBank to maintain its liquidity reserve associated with higher loan volume and to take advantage of favorable investment spread opportunities in the marketplace.

Available-for-sale investment securities with unrealized losses are also evaluated for an allowance for credit losses (ACL) under ASU 326. Management excludes those investment securities with no risk of credit loss from the ACL evaluation because they carry a full faith and credit guarantee of the U.S. government or are issued by U.S. agencies with an implicit guarantee from the U.S. government. For non-guaranteed investment securities, an analysis is performed at the individual security level to determine whether any portion of the unrealized loss is a credit loss. As of September 30, 2023, CoBank's allowance for credit losses on investment securities was $4 million. CoBank recorded a credit loss reversal of $2 million during the nine months ended September 30, 2023 that is included in the provision for credit losses (credit loss reversal) in the District condensed combined statement of income. The Association with investment securities recorded no allowance for credit losses at September 30, 2023.

## Derivatives and Hedging Activities

CoBank, and to a much lesser extent certain Associations in the District, use derivatives as part of their market risk management activities. Derivatives (primarily interest rate swaps) are used by the Bank and Associations to manage liquidity and the market risk arising from maturity and repricing mismatches between assets and liabilities. Derivatives (interest rate caps and floors) are also used by the Bank to hedge cap and floor risk embedded within its floating-rate investments and loans. The Bank also enters into derivatives with its retail customers and Associations in the District as a service to enable them to transfer, modify or reduce their interest rate risk. Derivative transactions between CoBank and the Associations in the District and the assets/liabilities and income/expense related thereto, are eliminated in the District's condensed combined balances sheets and statements of income. Derivative transactions between CoBank and its retail customers and to offset the interest rate risk in derivatives between the Bank and Associations in the District are not designated as hedging instruments and not eliminated, and therefore, changes in fair value related to these derivatives are recorded in current period earnings. Refer to the CoBank Annual Report for additional description and disclosure of the Bank's derivatives.

Derivatives are recorded at fair value as assets or liabilities in the District condensed combined balance sheets. Derivative assets totaled $1.0 billion at September 30, 2023 compared to $942 million at December 31, 2022. Derivative liabilities totaled $1.3 billion at September 30, 2023 compared to $1.1 billion at December 31, 2022.

Changes in the fair value of District derivatives are accounted for as gains or losses through current period earnings or as a component of accumulated other comprehensive income (loss), depending on the use of the derivatives and whether they qualify for hedge accounting treatment. Net changes in the fair value of derivatives recorded in noninterest income in the accompanying condensed combined statements of income included losses of $14 million and $43 million for the first nine months of 2023 and 2022, respectively. Changes in the fair value of derivatives recorded as other comprehensive income (loss) totaled net gains of $69 million and $108 million for the first nine months of 2023 and 2022, respectively.

## District Capital Resources and Other

Combined District shareholders' equity at September 30, 2023 increased to $23.6 billion as compared to $22.6 billion at December 31, 2022. The change primarily resulted from District net income of $2.1 billion. This was somewhat offset by accrued patronage, an increase in accumulated other comprehensive loss, common stock retirements and the merger of two Associations in 2023, which resulted in a net reduction of equity due to fair value accounting and a reclassification between retained earnings and paid in capital.

As previously discussed in the District's 2022 Annual District Financial Information, in June 2022, CoBank's stockholders approved a Board-recommended action to reduce the target equity ranges specified in CoBank's capitalization bylaws. In August 2022 the CoBank Board lowered target equity levels contained in its capital plans, which had the impact of lowering these levels for its customer-owners, cooperatives, other patronage-eligible borrowers and both affiliated and non-affiliated Farm Credit System institutions. These lower target equity levels were effective in 2022. In December 2022, the CoBank Board approved stock retirements reflecting the impact of these lower target equity levels as well as normal retirements. These stock retirements totaled $191 million and were made in March 2023.

During the first nine months of 2023 and 2022, CoBank retired $8 million and $70 million, respectively, of its outstanding Series E non-cumulative perpetual preferred stock in a series of open market purchase transactions. The retired Series E preferred stock was purchased at a discount from par value resulting in modest gains on retirement recorded in unallocated retained earnings.

The components of the District's accumulated other comprehensive loss are detailed in the following table.

($ in Millions)

**Accumulated Other Comprehensive Loss**[1]

| | September 30, 2023 | December 31, 2022 |
|---|---|---|
| Unrealized Losses on Investment Securities | **$ (2,270)** | $ (2,013) |
| Net Pension Adjustment | **(317)** | (340) |
| Unrealized Gains on Interest Rate Swaps and Other Derivatives | **133** | 64 |
| **Accumulated Other Comprehensive Loss** | **$ (2,454)** | $ (2,289) |

(1) Amounts are presented net of tax.

The change in the District's total accumulated other comprehensive loss during the first nine months of 2023 is largely due to an increase in unrealized losses on investment securities driven by the impact of market interest rate changes on the fair value of fixed rate securities.

The following table presents regulatory capital and leverage ratios for CoBank and the range of ratios at the affiliated Associations.

**Regulatory Capital Requirements and Ratios**

| | | | | September 30, 2023 | | December 31, 2022 | |
|---|---|---|---|---|---|---|---|
| Ratio | Primary Components of Numerator | Regulatory Minimums | Minimum with Buffer* | CoBank | District Associations | CoBank | District Associations |
| **Risk Adjusted:** | | | | | | | |
| Common equity tier 1 (CET1) capital ratio | Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity)(1) | 4.5 % | 7.0 % | **11.67 %** | **10.63 - 21.52%** | 11.62 % | 10.09 - 22.00% |
| Tier 1 capital ratio | CET1 Capital, non-cumulative perpetual preferred stock | 6.0 % | 8.5 % | **13.40 %** | **12.06 - 21.52%** | 13.39 % | 11.58 - 22.00% |
| Total capital ratio | Tier 1 Capital, allowance for loan losses(2), common cooperative equities(3) and term preferred stock and subordinated debt(4) | 8.0 % | 10.5 % | **14.26 %** | **13.12 - 21.94%** | 14.25 % | 12.81 - 22.37% |
| Permanent capital ratio | Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits | 7.0 % | 7.0 % | **13.50 %** | **13.22 - 21.60%** | 13.51 % | 12.82 - 22.07% |
| **Non-risk adjusted:** | | | | | | | |
| Tier 1 leverage ratio** | Tier 1 Capital | 4.0 % | 5.0 % | **6.77 %** | **13.82 - 22.42%** | 6.80 % | 13.29 - 22.65% |
| UREE leverage ratio | URE and URE Equivalents | 1.5 % | 1.5 % | **3.21 %** | **12.12 - 22.26%** | 3.13 % | 11.51 - 22.47% |

* The capital conservation buffer is 2.5 percentage points in addition to certain ratios stated in the Regulatory Minimums column.
** Must include the 1.5 percent regulatory minimum requirement for the URE and UREE Leverage ratio.
(1) Equities outstanding 7 or more years
(2) Capped at 1.25% of risk-adjusted assets
(3) Equities outstanding 5 or more years, but less than 7 years
(4) Debt and equities outstanding 5 or more years

As depicted in the table above, at September 30, 2023, CoBank and all affiliated Associations exceeded the FCA's regulatory minimum capital ratios and any required buffers. Although aggregated in the District's condensed combined financial statements, capital for each District entity is particular to that institution. In addition, the provisions of joint and several liability for Systemwide Debt Securities are applicable only to System banks and do not include Associations. CoBank has no access to Association capital beyond their required investment in the Bank. There are no capital sharing agreements between CoBank and its affiliated Associations.

## Association Mergers and Other Matters

### Association Mergers

Effective October 1, 2023, two of our affiliated Associations, American AgCredit, ACA and Farm Credit of New Mexico, ACA merged and are doing business as American AgCredit, ACA.

Effective January 1, 2023, two of our affiliated Associations, Northwest Farm Credit Services, ACA and Farm Credit West, ACA merged and are doing business as AgWest, ACA.

### Current Expected Credit Losses

In June 2016, the FASB issued ASU, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The ASU introduced a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. The new model applied to: (1) loans, accounts receivable, trade receivables, and other financial assets measured at amortized cost; (2) loan commitments and certain other off-balance sheet credit exposures; (3) debt securities and other financial assets measured at fair value through other comprehensive income (loss); and (4) beneficial interests in securitized financial assets. The ASU also required certain new loan and allowance for credit losses disclosures, including loan vintage information. CoBank and the Associations in the District adopted this ASU on January 1, 2023. On adoption, CoBank recorded a decrease of $75 million in the allowance for credit losses related to loans, leases and unfunded commitments with an offsetting increase to shareholders' equity, net of taxes. The Associations recorded a net combined decrease of $49 million in their allowance for credit losses upon adoption of CECL. The decrease in the District allowance for credit losses under CECL is due to the measurement of credit losses under CECL over the contractual life of a loan compared to requirements under previous GAAP which were based on management's estimate of the loss emergence period for a loan. As a result of this measurement change, a large portion of the District's agribusiness loan volume, including seasonal lending to grain and farm supply cooperatives as well as other short-term loans, have a lower allowance for credit losses under CECL. In contrast, and partially offsetting this reduction, the District's long-term rural infrastructure loans to many of communications, energy and water customers as well as real estate mortgage loans have a higher CECL allowance for credit losses. In addition, the adoption of the ASU resulted in a $6 million allowance for credit losses on CoBank's investment portfolio of available-for-sale debt securities with an offsetting decrease to shareholders' equity, net of taxes. The affiliated Association with investment securities recorded no allowance for credit losses upon adoption of the ASU. The substantial majority of the District's investments have no risk of credit loss because they carry a full faith and credit guarantee of the U.S. government or are issued by U.S. agencies with an implicit guarantee from the U.S. government. CoBank's allowance for credit losses recorded upon adoption related to investments in corporate bonds that are not guaranteed by the U.S. government or U.S. agencies.

### LIBOR Transition

As more fully disclosed in the "Transition from LIBOR" under the heading "Association Mergers and Other Matters" of our 2022 Annual District Report, LIBOR settings (including with respect to overnight, one-month, three-month, six-month, and twelve-month tenors of US dollar LIBOR) were discontinued or declared non-representative immediately after June 30, 2023.

District institutions recognized the discontinuance of LIBOR presented significant risks and challenges that could have impacted their businesses and customers. CoBank and our affiliated Associations executed LIBOR transition plans in accordance with Farm Credit Administration's guidance to address the risks associated with the discontinuance of LIBOR and completed the conversion to the Secured Overnight Financing Rate (SOFR).

While District institutions implemented SOFR fallback language in a substantial majority of loan agreements, certain loans, investment securities, Systemwide Debt Securities, preferred stock and derivative transactions that mature after June 30, 2023 and reference LIBOR had no or inadequate fallback provisions. The federal Adjustable Interest Rate

(LIBOR) Act provides a statutory fallback mechanism on a nationwide basis to replace LIBOR with a benchmark rate, selected by the Federal Reserve Board and based on SOFR, for certain contracts that reference LIBOR and contain no or inadequate fallback provisions. On December 16, 2022, the Federal Reserve Board adopted a final rule implementing certain provisions of the LIBOR Act ("Regulation ZZ"). Regulation ZZ specifies that on the LIBOR replacement date, which is the first London banking day after June 30, 2023, the Federal Reserve Board-selected benchmark replacement, based on SOFR and including any tenor spread adjustment as provided by Regulation ZZ, will replace references to overnight, one-month, three-month, six-month, and twelve-month LIBOR in certain contracts that do not mature before the LIBOR replacement date and that have no or inadequate fallback language.

As of September 30, 2023, District institutions remaining exposure to LIBOR-indexed financial instruments include approximately $145 million in loans. In addition, CoBank has $300 million and $375 million of preferred stock which currently has fixed dividend rates that convert to LIBOR-indexed variable rates in 2025 and 2026, respectively. Given LIBOR is no longer being quoted, these instruments will convert to variable rates pursuant to the fallback language in the preferred stock agreements. CoBank and its affiliated Associations have no remaining LIBOR exposure to investment securities, Systemwide Debt Securities and derivative transactions. At this time, District institutions do not expect the remaining LIBOR transition to have a material impact on their borrowers, investors, customers and counterparties. However, disputes and litigation with counterparties, investors and borrowers relating to the LIBOR transition may be possible in the future.

**Funding**

The System is a government sponsored enterprise (GSE) and CoBank and its affiliated Associations, as members of the System, have historically benefited from the favorable funding costs and funding flexibility available through the issuance of Systemwide debt securities. The credit ratings of GSEs, including the System, are influenced by the sovereign credit rating of the United States.

On August 1, 2023, Fitch Ratings downgraded the long-term sovereign credit rating on the United States to AA+ from AAA. Subsequently, on August 2, 2023, Fitch Ratings downgraded the long-term issuer default rating for the System to AA+ from AAA. Fitch also downgraded the individual long-term issuer default ratings of the System Banks, including CoBank, to A+. The outlook on the long-term default rating for each System Bank, including CoBank, was revised to stable from ratings watch negative. The downgrade of the System and the System Banks' ratings reflect the downgrade of the U.S. sovereign rating.

Notwithstanding these actions, to date CoBank has continued to access competitively priced funding necessary to support its lending and business operations, including lending to affiliated Associations in the District. However, such actions and any future downgrades from ratings agencies could negatively impact the access to debt capital markets, funding flexibility, funding costs and earnings for CoBank, its affiliated Associations and other System institutions.

**Other Regulatory Matters**

On July 8, 2021, the FCA announced a proposed rule that would amend the Tier 1/Tier 2 capital framework to define and establish a risk weight for high-volatility commercial real estate exposures by assigning a 150 percent risk-weighting to such exposures, instead of the current 100 percent risk-weighting. The proposed rule focuses on changes that are comparable with the capital rules of other federal banking regulatory agencies and recognizes the increased risk posed by high-volatility commercial real estate exposures. The public comment period ended on January 24, 2022.

On October 5, 2023, the FCA approved a final rule on cyber risk management that requires each System institution to develop and implement a comprehensive, written cyber risk management program. Each institution's cyber risk plan must require the institution to take the actions to assess internal and external risk factors, identify potential system and software vulnerabilities, establish a risk management program for the risks identified, develop a cyber risk training program, set policies for managing third-party relationships, maintain robust internal controls and establish institution board reporting requirements. The final rule will become effective on January 1, 2025.

## Subsequent Events

We have evaluated subsequent events through November 9, 2023, which is the date the financial statements were issued and determined that there were no other events requiring disclosure.

# Quarterly District Financial Information

**CoBank, ACB and Affiliated Associations**

## Condensed Combined Balance Sheets

*(unaudited)*

($ in Millions)

| | September 30, 2023 | December 31, 2022 |
|---|---|---|
| **Assets** | | |
| Total Loans | **$ 154,191** | $ 152,605 |
| Less: Allowance for Loan Losses | **995** | 988 |
| Net Loans | **153,196** | 151,617 |
| Cash and Cash Equivalents | **318** | 1,123 |
| Federal Funds Sold and Other Overnight Funds | **7,853** | 12,401 |
| Investment Securities (net of allowance of $4 million at September 30, 2023) | **36,712** | 34,549 |
| Interest Rate Swaps and Other Derivatives | **1,009** | 942 |
| Accrued Interest Receivable and Other Assets | **3,780** | 3,304 |
| **Total Assets** | **202,868** | 203,936 |
| **Liabilities** | | |
| Bonds and Notes | **$ 174,290** | $ 176,230 |
| Subordinated Debt | **198** | 198 |
| Interest Rate Swaps and Other Derivatives | **1,331** | 1,079 |
| Reserve for Unfunded Commitments | **138** | 182 |
| Patronage Payable | **670** | 1,267 |
| Accrued Interest Payable and Other Liabilities | **2,633** | 2,349 |
| **Total Liabilities** | **179,260** | 181,305 |
| **Shareholders' Equity** | | |
| Preferred Stock Issued by Bank | **1,625** | 1,633 |
| Preferred Stock Issued by Associations | **321** | 303 |
| Common Stock | **1,897** | 1,930 |
| Paid In Capital | **3,594** | 1,578 |
| Unallocated Retained Earnings | **18,625** | 19,476 |
| Accumulated Other Comprehensive Loss | **(2,454)** | (2,289) |
| **Total Shareholders' Equity** | **23,608** | 22,631 |
| **Total Liabilities and Shareholders' Equity** | **$ 202,868** | $ 203,936 |

# Quarterly District Financial Information

**CoBank, ACB and Affiliated Associations**

# Condensed Combined Statements of Income

*(unaudited)*

($ in Millions)

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2023** | **2022** | **2023** | **2022** |
| **Interest Income** | | | | |
| Loans | **$ 2,485** | $ 1,601 | **$ 7,197** | $ 4,129 |
| Investment Securities | **348** | 193 | **951** | 453 |
| Federal Funds Sold and Other Overnight Funds | **110** | 53 | **333** | 69 |
| Total Interest Income | **2,943** | 1,847 | **8,481** | 4,651 |
| **Interest Expense** | **1,872** | 832 | **5,297** | 1,603 |
| Net Interest Income | **1,071** | 1,015 | **3,184** | 3,048 |
| Provision for Credit Losses (Credit Loss Reversal) | **18** | (16) | **173** | 55 |
| Net Interest Income After Provision for Credit Losses (Credit Loss Reversal) | **1,053** | 1,031 | **3,011** | 2,993 |
| **Noninterest Income** | | | | |
| Net Fee Income | **67** | 52 | **203** | 140 |
| Patronage Income | **46** | 38 | **148** | 130 |
| Financially-Related Services Income | **19** | 17 | **53** | 46 |
| Prepayment Income | **1** | 2 | **3** | 12 |
| Gains on Early Extinguishments of Debt | **3** | 3 | **2** | 1 |
| Losses on Interest Rate Swaps and Other Derivatives | **(6)** | (17) | **(14)** | (43) |
| Gains (Losses) on Sales of Investment Securities | **—** | — | **(7)** | 2 |
| Other, Net | **13** | 18 | **43** | 55 |
| Total Noninterest Income | **143** | 113 | **431** | 343 |
| **Operating Expenses** | | | | |
| Employee Compensation | **219** | 211 | **643** | 596 |
| Insurance Fund Premium | **63** | 64 | **191** | 199 |
| Information Services | **47** | 41 | **132** | 107 |
| General and Administrative | **25** | 21 | **74** | 63 |
| Occupancy and Equipment | **15** | 16 | **46** | 48 |
| Farm Credit System Related | **10** | 9 | **29** | 27 |
| Purchased Services | **17** | 26 | **46** | 65 |
| Other | **28** | 17 | **81** | 52 |
| Total Operating Expenses | **424** | 405 | **1,241** | 1,157 |
| Income Before Income Taxes | **772** | 739 | **2,201** | 2,179 |
| Provision for Income Taxes | **34** | 44 | **99** | 106 |
| **Net Income** | **$ 738** | $ 695 | **$ 2,102** | $ 2,073 |

# Quarterly District Financial Information

**CoBank, ACB and Affiliated Associations**

## Select Information on District Associations

*(unaudited)*

($ in Millions)

| As of September 30, 2023 | Wholesale Loans | % of Wholesale Loans | Total Assets | Total Regulatory Capital | Total Regulatory Capital Ratio | Non-performing Loans as a % of Total Loans | Return on Average Assets |
|---|---|---|---|---|---|---|---|
| AgWest, ACA[(2)] | $ 24,704 | 36.10 % | $ 31,426 | $ 5,057 | 15.97 % | 0.68 % | 2.17 % |
| American AgCredit, ACA[(1)] | 15,428 | 22.55 | 19,238 | 2,770 | 13.12 | 1.30 | 2.09 |
| Farm Credit East, ACA | 8,890 | 12.99 | 11,173 | 2,038 | 17.28 | 0.27 | 2.44 |
| Yosemite Farm Credit, ACA | 3,577 | 5.23 | 4,477 | 654 | 14.46 | 0.32 | 2.41 |
| Frontier Farm Credit, ACA | 2,232 | 3.26 | 2,836 | 523 | 16.11 | 0.26 | 1.72 |
| Golden State Farm Credit, ACA | 1,987 | 2.90 | 2,487 | 370 | 14.23 | 0.03 | 2.62 |
| Farm Credit of New Mexico, ACA[(1)] | 1,529 | 2.23 | 2,054 | 435 | 21.23 | 0.52 | 2.10 |
| Oklahoma AgCredit, ACA | 1,643 | 2.40 | 2,048 | 321 | 15.47 | 0.89 | 1.66 |
| High Plains Farm Credit, ACA | 1,554 | 2.27 | 1,933 | 278 | 14.27 | 0.08 | 2.32 |
| Farm Credit Western Oklahoma, ACA | 1,450 | 2.12 | 1,828 | 296 | 17.55 | 0.47 | 1.44 |
| Fresno-Madera Farm Credit, ACA | 1,217 | 1.78 | 1,607 | 292 | 16.39 | 0.43 | 1.75 |
| Farm Credit of Southern Colorado, ACA | 1,216 | 1.78 | 1,575 | 273 | 16.97 | 0.46 | 1.55 |
| Western AgCredit, ACA | 1,065 | 1.56 | 1,420 | 275 | 18.35 | 0.84 | 2.48 |
| Premier Farm Credit, ACA | 741 | 1.08 | 1,004 | 195 | 17.86 | 0.25 | 1.97 |
| Farm Credit Services of Colusa-Glenn, ACA | 576 | 0.84 | 772 | 139 | 15.53 | 0.76 | 2.77 |
| Farm Credit of Western Kansas, ACA | 338 | 0.49 | 476 | 105 | 21.94 | — | 2.24 |
| Idaho AgCredit, ACA | 282 | 0.41 | 396 | 67 | 17.55 | 0.11 | 2.12 |
| **As of December 31, 2022** | | | | | | | |
| American AgCredit, ACA[(1)] | $ 14,761 | 22.46 % | $ 18,502 | $ 2,583 | 12.81 % | 1.06 % | 2.05 % |
| Northwest Farm Credit Services, ACA[(2)] | 11,812 | 17.96 | 15,794 | 2,811 | 17.81 | 0.35 | 2.31 |
| Farm Credit West, ACA[(2)] | 11,789 | 17.93 | 14,820 | 2,084 | 14.67 | 0.50 | 2.57 |
| Farm Credit East, ACA | 8,691 | 13.22 | 11,003 | 1,933 | 17.05 | 0.41 | 2.59 |
| Yosemite Farm Credit, ACA | 3,493 | 5.31 | 4,316 | 599 | 13.97 | 0.19 | 2.15 |
| Frontier Farm Credit, ACA | 2,212 | 3.36 | 2,814 | 477 | 16.11 | 0.23 | 1.90 |
| Golden State Farm Credit, ACA | 1,837 | 2.79 | 2,302 | 344 | 14.23 | 0.27 | 2.34 |
| Farm Credit of New Mexico, ACA[(1)] | 1,646 | 2.50 | 2,165 | 428 | 20.13 | 0.56 | 1.94 |
| Oklahoma AgCredit, ACA | 1,604 | 2.44 | 1,984 | 300 | 15.08 | 0.54 | 1.75 |
| Farm Credit Western Oklahoma, ACA | 1,342 | 2.04 | 1,695 | 276 | 18.12 | 0.70 | 1.54 |
| High Plains Farm Credit, ACA | 1,299 | 1.98 | 1,667 | 253 | 15.39 | 0.22 | 2.09 |
| Fresno-Madera Farm Credit, ACA | 1,174 | 1.78 | 1,553 | 275 | 16.99 | 0.15 | 1.78 |
| Farm Credit of Southern Colorado, ACA | 1,210 | 1.84 | 1,542 | 258 | 16.66 | 0.45 | 1.56 |
| Western AgCredit, ACA | 1,031 | 1.57 | 1,363 | 253 | 17.93 | 1.16 | 2.31 |
| Premier Farm Credit, ACA | 746 | 1.13 | 990 | 181 | 17.22 | 0.31 | 1.99 |
| Farm Credit Services of Colusa-Glenn, ACA | 517 | 0.79 | 712 | 125 | 16.07 | — | 1.94 |
| Farm Credit of Western Kansas, ACA | 316 | 0.48 | 453 | 97 | 22.37 | 0.48 | 1.93 |
| Idaho AgCredit, ACA | 279 | 0.42 | 369 | 60 | 17.36 | 0.12 | 1.78 |

(1) These District Associations merged effective October 1, 2023.

(2) These District Associations merged into AgWest, ACA effective January 1, 2023.

## Association Information

***AgWest, ACA***
2001 South Flint Road
Spokane, WA 99220-2515
509-340-5300
www.agwestfc.com

***American AgCredit, ACA***
400 Aviation Boulevard, Suite 100
Santa Rosa, CA 95403
707-545-1200
www.agloan.com

***Farm Credit East, ACA***
240 South Road
Enfield, CT 06082
860-741-4380
www.farmcrediteast.com

***Farm Credit of Southern Colorado, ACA***
5110 Edison Avenue
Colorado Springs, CO 80915
719-570-1087
www.aglending.com

***Farm Credit of Western Kansas, ACA***
1190 South Range Avenue
Colby, KS 67701-3503
785-462-6714
www.fcwk.com

***Farm Credit of Western Oklahoma, ACA***
3302 Williams Avenue
Woodward, OK 73801
580-256-3465
www.fcwestok.com

***Farm Credit Services of Colusa-Glenn, ACA***
2970 Davison Court
Colusa, CA 95932
530-458-2163
www.fcscolusaglenn.com

***Fresno-Madera Farm Credit, ACA***
4635 West Spruce Avenue
Fresno, CA 93722
559-277-7000
www.fmfarmcredit.com

***Frontier Farm Credit, ACA***
5015 South 118th Street
Omaha, NE 68137
785-776-7144
www.frontierfarmcredit.com

***Golden State Farm Credit, ACA***
1359 East Lassen Avenue
Chico, CA 95973
530-571-4160
www.goldenstatefarmcredit.com

***High Plains Farm Credit, ACA***
605 Main
Larned, KS 67550-0067
620-285-6978
www.highplainsfarmcredit.com

***Idaho AgCredit, ACA***
188 West Judicial Street
Blackfoot, ID 83221-0985
208-785-1510
www.idahoagcredit.com

***Oklahoma AgCredit, ACA***
3033 Progressive Drive
Edmond, OK 73034
918-251-8596
www.okagcredit.com

***Premier Farm Credit, ACA***
202 Poplar Street
Sterling, CO 80751-1785
970-522-2330
www.premieraca.com

***Yosemite Farm Credit, ACA***
806 West Monte Vista Avenue
Turlock, CA 95382
209-667-2366
www.yosemitefarmcredit.com

***Western AgCredit, ACA***
10980 South Jordan
Gateway South Jordan, UT 84095-0850
801-571-9200
www.westernagcredit.com