CoBank Quarterly District Financial Information June 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 June 30, 2023, we have 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 June 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.

Financial Highlights

($ in Millions) (Unaudited)

	June 30, 2023	December 31, 2022
Total Loans	**$ 152,672**	$ 152,605
Less: Allowance for Loan Losses	**990**	988
Net Loans	**151,682**	151,617
Total Assets	**201,986**	203,936
Total Shareholders' Equity	**23,381**	22,631

For the Six Months Ended June 30,	2023	2022
Net Interest Income	**$ 2,113**	$ 2,033
Provision for Credit Losses	**155**	71
Net Fee Income	**136**	89
Net Income	**1,364**	1,378
Net Interest Margin	**2.11 %**	2.14 %
Net Charge-offs / Average Loans	**0.03**	0.03
Return on Average Assets	**1.34**	1.42
Return on Average Total Shareholders' Equity	**11.67**	11.75
Operating Expense / Net Interest Income and Noninterest Income	**34.01**	33.21
Average Loans	**$ 155,393**	$ 151,246
Average Earning Assets	**200,208**	190,390
Average Assets	**203,921**	193,907

Discussion and Analysis of District Results of Operations and Financial Condition

District average loan volume increased 3 percent to $155.4 billion in the first six months of 2023, compared to $151.2 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 15 percent to $44.8 billion during the first six months of 2023 compared to $39.1 billion in the same prior-year period. The increase in average investments, federal funds sold and other overnight funds was primarily at CoBank and was to enhance its liquidity reserve in response to market volatility and other unfavorable conditions in the banking sector and to take advantage of favorable investment spread opportunities in the marketplace.

District net income was $1.4 billion for the six-month periods ended June 30, 2023 and 2022. The slight decrease in current period earnings primarily resulted from an increase in operating expenses and a higher provision for credit losses, partially offset by an increase in net interest income and noninterest income.

District net interest income increased $80 million, or 4 percent, to $2.1 billion for the first six months of 2023 from $2.0 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 2.11 percent for the six months ended June 30, 2023, compared to 2.14 percent for the same period in 2022 reflecting changes in asset mix and spread compression in the current period.

The District recorded a provision for credit losses of $155 million in the six-month period ended June 30, 2023, compared to $71 million for the same period of 2022. CoBank recorded a provision for credit losses of $62 million in the first six months of 2023 compared to $105 million during the 2022 period. The 2023 provision at CoBank primarily relates to forecasts of deteriorating macroeconomic conditions and higher specific reserves for a small number of customers. The 2022 provision at CoBank primarily relates to increased agribusiness lending activity and to a lesser extent higher specific reserves for a small number of agribusiness 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 $93 million in the first six months of 2023, compared to a credit loss reversal of $34 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 as well as higher specific reserves and charge-offs 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.

District noninterest income increased $60 million to $289 million in the first six months of 2023 from $229 million for the same period in 2022. Noninterest income is primarily composed of fee income, patronage income, loan prepayment income, losses on early extinguishments of debt and gains and losses on derivatives. Net fee income increased $47 million in the 2023 period primarily at the Bank due to a higher volume of transaction-related lending fees. Patronage income increased by $10 million during the first six 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 $18 million in the first six 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 six months ended June 30, 2023 compared to gains of $1 million in the prior-year period. Prepayment income, net of losses on early extinguishments of debt, totaled income of $1 million in the six-month period ended June 30, 2023 compared to $8 million in the 2022 period. 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. 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 $67 million to $818 million in the first six months of 2023 from $751 million 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. Employee compensation expense increased $39 million in the first six 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 $20 million in the first six months of 2023 compared to the same period of 2022 due to greater software subscription, maintenance and amortization expenditures at the Bank and certain Associations to enhance and maintain service offerings and technology platforms. Other operating expenses increased $19 million in the first six 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 $7 million in 2023 driven by higher public and member relations expenses, temporary labor expenses and other administrative costs. Insurance Fund premium expense decreased $7 million in the first six 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 six months of June 30, 2023 and 2022, respectively.

District income tax expense increased $3 million to $65 million in the six-month period ended June 30, 2023, compared to $62 million in the same period of 2022 due to fewer tax credits generated and a lower level of patronage dividends for the first six 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

	June 30, 2023	December 31, 2022
Real Estate Mortgage	**$ 45,867**	$ 46,475
Nonaffiliated Associations	**5,727**	5,654
Production and Intermediate-term	**21,390**	21,907
Agribusiness:		
Loans to Cooperatives	**14,518**	16,405
Processing and Marketing	**14,203**	13,327
Farm Related Businesses	**2,650**	2,667
Communications	**7,433**	6,920
Rural Power	**24,349**	22,370
Water and Waste	**3,362**	2,966
Agricultural Export Finance	**8,172**	9,243
Rural Residential Real Estate	**378**	408
Lease Receivables	**4,503**	4,149
Other	**120**	114
Total	**$ 152,672**	$ 152,605

Overall District loan volume was relatively flat at June 30, 2023 compared to December 31, 2022. There were increases in power, processing and marketing, and communication loans, partially offset by decreases in loans to cooperatives, agricultural export finance loans, and real estate mortgage 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.

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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

	June 30, 2023	December 31, 2022
Fruits, Nuts and Vegetables	**16** %	16 %
Farm Supply, Grain and Marketing	**10**	11
Electric Distribution	**7**	6
Dairy	**6**	9
Cattle	**6**	6
Forest Products	**6**	5
Livestock, Fish and Poultry	**6**	4
Agricultural Export Finance	**5**	6
Farm Related Business Services	**5**	5
Field Crops Except Grains	**4**	4
Nonaffiliated Associations	**4**	4
Regulated Utilities	**4**	4
Generation and Transmission	**3**	3
Leasing	**3**	3
Rural Home	**2**	2
Other	**13**	12
Total	**100** %	100 %

Geographic Distribution

	June 30, 2023	December 31, 2022
California	**23** %	24 %
Texas	**7**	6
Kansas	**5**	6
New York	**5**	5
Washington	**4**	4
Colorado	**4**	4
Idaho	**3**	3
Oklahoma	**3**	3
Illinois	**2**	3
Oregon	**2**	2
Minnesota	**2**	2
Florida	**2**	2
Pennsylvania	**2**	2
Ohio	**2**	2
Iowa	**2**	2
Georgia	**2**	1
Other (less than 2 percent each for the current year)	**25**	23
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 and accrued interest.

District Loan Quality

	June 30, 2023	December 31, 2022[1]
Acceptable	**95.34 %**	96.17 %
Special Mention	**2.69**	2.04
Substandard	**1.96**	1.78
Doubtful	**0.01**	0.01
Loss	**—**	—
Total	**100.00 %**	100.00 %

[1] Prior to the adoption of CECL on January 1, 2022, loan quality ratios included accrued interest.

Our overall loan quality within the District remains strong at June 30, 2023 although there was some credit deterioration. Acceptable loans were 95.34 percent of total loans at June 30, 2023, compared to 96.17 percent at December 31, 2022. Special Mention loans increased to 2.69 percent of total loans at June 30, 2023, compared to 2.04 percent at December 31, 2022 due to credit quality changes primarily to real estate mortgage, production and intermediate-term and agribusiness loans. The level of adversely classified loans ("Substandard", "Doubtful" and "Loss") as a percent of total loans increased to 1.97 percent at June 30, 2023, compared to 1.79 percent at December 31, 2022 due primarily to credit quality changes related to real estate mortgage loans.

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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 June 30, 2023 period only.

Vintage by Credit Quality Indicator

As of June 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	Total Loans
Real Estate Mortgage										
Acceptable	$ 1,991	$ 6,267	$ 7,666	$ 6,405	$ 3,816	$ 14,346	$ 40,491	$ 2,305	$ 315	$ 43,111
Special Mention	51	140	180	294	150	595	1,410	133	20	1,563
Substandard	18	194	91	121	185	493	1,102	68	23	1,193
Doubtful	-	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-
Total	$ 2,060	$ 6,601	$ 7,937	$ 6,820	$ 4,151	$ 15,434	$ 43,003	$ 2,506	$ 358	$ 45,867
Gross Charge-offs(1)	$ -	$ -	$ -	$ -	$ 1	$ -	$ 1	$ -	$ -	$ 1
Nonaffiliated Associations										
Acceptable	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 5,727	$ -	$ 5,727
Special Mention	-	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 5,727	$ -	$ 5,727
Gross Charge-offs(1)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Production and Intermediate-Term										
Acceptable	$ 1,347	$ 2,667	$ 1,414	$ 1,206	$ 800	$ 1,775	$ 9,209	$ 10,517	$ 76	$ 19,802
Special Mention	47	92	48	31	87	29	334	489	7	830
Substandard	85	120	42	66	81	37	431	276	41	748
Doubtful	-	3	-	2	-	3	8	-	2	10
Loss	-	-	-	-	-	-	-	-	-	-
Total	$ 1,479	$ 2,882	$ 1,504	$ 1,305	$ 968	$ 1,844	$ 9,982	$ 11,282	$ 126	$ 21,390
Gross Charge-offs(1)	$ -	$ 8	$ -	$ -	$ 9	$ -	$ 17	$ 1	$ -	$ 18
Agribusiness										
Acceptable	$ 2,123	$ 4,673	$ 3,518	$ 2,148	$ 1,561	$ 3,664	$ 17,687	$ 11,346	$ 215	$ 29,248
Special Mention	25	199	181	86	56	174	721	504	3	1,228
Substandard	53	5	85	130	16	155	444	444	-	888
Doubtful	3	-	-	-	-	1	4	3	-	7
Loss	-	-	-	-	-	-	-	-	-	-
Total	$ 2,204	$ 4,877	$ 3,784	$ 2,364	$ 1,633	$ 3,994	$ 18,856	$ 12,297	$ 218	$ 31,371
Gross Charge-offs(1)	$ 1	$ -	$ 2	$ -	$ -	$ -	$ 3	$ 3	$ 3	$ 9
Communications										
Acceptable	$ 748	$ 1,666	$ 1,272	$ 1,179	$ 561	$ 1,170	$ 6,596	$ 630	$ -	$ 7,226
Special Mention	-	59	67	12	12	53	203	4	-	207
Substandard	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-
Total	$ 748	$ 1,725	$ 1,339	$ 1,191	$ 573	$ 1,223	$ 6,799	$ 634	$ -	$ 7,433
Gross Charge-offs(1)	$ -	$ -	$ -	$ -	$ -	$ 1	$ 1	$ -	$ -	$ 1
Rural Power										
Acceptable	$ 1,933	$ 4,018	$ 2,686	$ 2,782	$ 1,378	$ 9,105	$ 21,902	$ 2,211	$ 30	$ 24,143
Special Mention	-	38	-	-	-	105	143	-	-	143
Substandard	-	10	-	-	17	30	57	5	-	62
Doubtful	-	-	-	-	1	-	1	-	-	1
Loss	-	-	-	-	-	-	-	-	-	-
Total	$ 1,933	$ 4,066	$ 2,686	$ 2,782	$ 1,396	$ 9,240	$ 22,103	$ 2,216	$ 30	$ 24,349
Gross Charge-offs(1)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Water and Waste										
Acceptable	$ 234	$ 899	$ 344	$ 377	$ 221	$ 909	$ 2,984	$ 377	$ -	$ 3,361
Special Mention	-	-	-	-	-	1	1	-	-	1
Substandard	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-
Total	$ 234	$ 899	$ 344	$ 377	$ 221	$ 910	$ 2,985	$ 377	$ -	$ 3,362
Gross Charge-offs(1)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(1) As of and for the six months ended June 30, 2023.

Vintage by Credit Quality Indicator (Continued)

As of June 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	$ -	$ 240	$ 112	$ -	$ 17	$ 139	$ 508	$ 7,649	$ 15	$ 8,172
Special Mention	-	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-
Total	$ -	$ 240	$ 112	$ -	$ 17	$ 139	$ 508	$ 7,649	$ 15	$ 8,172
Gross Charge-offs[1]	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Rural Residential Real Estate										
Acceptable	$ 10	$ 29	$ 32	$ 24	$ 14	$ 260	$ 369	$ 2	$ -	$ 371
Special Mention	-	-	-	-	-	3	3	-	-	3
Substandard	-	-	-	-	-	4	4	-	-	4
Doubtful	-	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-
Total	$ 10	$ 29	$ 32	$ 24	$ 14	$ 267	$ 376	$ 2	$ -	$ 378
Gross Charge-offs[1]	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Lease Receivables										
Acceptable	$ 612	$ 1,159	$ 822	$ 603	$ 384	$ 719	$ 4,299	$ -	$ -	$ 4,299
Special Mention	7	27	15	39	26	23	137	-	-	137
Substandard	4	4	12	13	10	24	67	-	-	67
Doubtful	-	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-
Total	$ 623	$ 1,190	$ 849	$ 655	$ 420	$ 766	$ 4,503	$ -	$ -	$ 4,503
Gross Charge-offs[1]	$ -	$ -	$ -	$ -	$ -	$ 1	$ 1	$ -	$ -	$ 1
Other										
Acceptable	$ 1	$ 2	$ 1	$ 1	$ -	$ 13	$ 18	$ 100	$ -	$ 118
Special Mention	-	-	-	-	-	1	1	-	-	1
Substandard	-	-	-	-	-	1	1	-	-	1
Doubtful	-	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-
Total	$ 1	$ 2	$ 1	$ 1	$ -	$ 15	$ 20	$ 100	$ -	$ 120
Gross Charge-offs[1]	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Loans of CoBank District										
Acceptable	$ 8,999	$ 21,620	$ 17,867	$ 14,725	$ 8,752	$ 32,100	$ 104,063	$ 40,864	$ 651	$ 145,578
Special Mention	130	555	491	462	331	984	2,953	1,130	30	4,113
Substandard	160	333	230	330	309	744	2,106	793	64	2,963
Doubtful	3	3	-	2	1	4	13	3	2	18
Loss	-	-	-	-	-	-	-	-	-	-
Total	$ 9,292	$ 22,511	$ 18,588	$ 15,519	$ 9,393	$ 33,832	$ 109,135	$ 42,790	$ 747	$ 152,672
Gross Charge-offs[1]	$ 1	$ 8	$ 2	$ -	$ 10	$ 2	$ 23	$ 4	$ 3	$ 30

[1] As of and for the six months ended June 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, slowing economy, weather related events, trade uncertainty, global economic uncertainty and the Russia/Ukraine war.

Nonperforming assets (which consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned) totaled $734 million as of June 30, 2023, compared to $594 million at December 31, 2022. District nonaccrual loans increased $133 million during the first six months of 2023. Nonaccrual loans at CoBank increased $13 million due to a small number of agribusiness and rural power loans transferred to nonaccrual status. Nonaccrual loans at Associations increased $120 million primarily due to a small number of real estate mortgage, agribusiness 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 $29 million during the first six months of 2023 primarily driven by increases from real estate mortgage. Other property owned remained relatively flat at June 30, 2023 as compared to December 31, 2022. Nonperforming assets represented 0.48 percent and 0.38 percent of total District loan volume and other property owned at June 30, 2023 and December 31, 2022, respectively. Nonaccrual loan volume, the largest component of nonperforming assets, represented 0.44 percent of total loans at June 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

	June 30, 2023	December 31, 2022[1]
Nonaccrual Loans:		
Real Estate Mortgage	**$ 238**	$ 183
Production and Intermediate-term	**205**	150
Agribusiness	**187**	178
Rural Power	**23**	11
Rural Residential Real Estate	**2**	1
Lease Receivables	**16**	15
Total Nonaccrual Loans	**671**	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	**22**	3
Production and Intermediate-term	**5**	1
Agribusiness	**2**	—
Lease Receivables	**19**	15
Total Accruing Loans 90 Days or More Past Due	**48**	19
Total Nonperforming Loans	**719**	578
Other Property Owned	**15**	16
Total Nonperforming Assets	**$ 734**	$ 594
Nonaccrual Loans as a Percentage of Total Loans	**0.44 %**	0.35 %
Nonperforming Assets as a Percentage of Total Loans and Other Property Owned	**0.48**	0.38
Nonperforming Assets as a Percentage of Capital	**3.14**	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
June 30, 2023						
Real Estate Mortgage	$ 152	$ 91	$ 243	$ 45,624	$ 45,867	$ 22
Nonaffiliated Associations	—	—	—	5,727	5,727	—
Production and Intermediate-term	44	112	156	21,234	21,390	5
Agribusiness	61	51	112	31,259	31,371	2
Communications	—	—	—	7,433	7,433	—
Rural Power	—	17	17	24,331	24,348	—
Water and Waste	—	—	—	3,362	3,362	—
Agricultural Export Finance	—	—	—	8,172	8,172	—
Rural Residential Real Estate	2	1	3	375	378	—
Lease Receivables	34	26	60	4,443	4,503	19
Other	—	—	—	121	121	—
Total	$ 293	$ 298	$ 591	$ 152,081	$ 152,672	$ 48
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 $131 million at June 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 June 30, 2023 totaled $990 million compared to $988 million at December 31, 2022. Changes in the allowance during the first six months of 2023 included an overall provision for credit losses of $155 million, which is described on page 3, a $50 million decrease due to the adoption of the CECL accounting standard, loan charge-offs of $30 million, loan recoveries of $9 million, a $59 million Association merger impact and a $23 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 loan losses 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
June 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)	—	(18)	(10)	(1)	—	—	—	—	—	(30)
Recoveries	—	—	6	3	—	—	—	—	—	—	9
Provision for Credit Losses/ (Credit Loss Reversal)	19	—	35	61	15	24	—	(7)	—	8	155
Transfers (to) from Reserve for Unfunded Commitments	(2)	—	(5)	(15)	(1)	—	—	—	—	—	(23)
Association Merger Impact, Net	(4)	—	(33)	(16)	—	(1)	—	—	—	(5)	(59)
Ending Balance	$ 129	$ —	$ 114	$ 395	$ 104	$ 146	$ 24	$ 31	$ 2	$ 45	$ 990
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	2	—	5	15	1	—	—	—	—	—	23
Ending Balance	$ 6	$ —	$ 22	$ 75	$ 9	$ 17	$ 1	$ 1	$ —	$ —	$ 131
Allowance for Credit Losses	$ 135	$ —	$ 136	$ 470	$ 113	$ 163	$ 25	$ 32	$ 2	$ 45	$ 1,121
June 30, 2022											
Allowance for Loan Losses											
Beginning Balance	$ 128	$ —	$ 193	$ 401	$ 44	$ 104	$ 13	$ 25	$ 2	$ 52	$ 962
Charge-offs	—	—	(1)	(5)	—	(19)	—	—	—	(1)	(26)
Recoveries	—	—	1	—	1	—	—	—	—	—	2
Provision for Credit Losses/ (Credit Loss Reversal)	(4)	—	(30)	80	11	14	—	2	(1)	(1)	71
Transfers (to) from Reserve for Unfunded Commitments	1	—	2	—	(2)	2	—	—	—	—	3
Association Merger Impact, Net	(2)	—	(2)	—	—	—	—	—	—	—	(4)
Ending Balance	$ 123	$ —	$ 163	$ 476	$ 54	$ 101	$ 13	$ 27	$ 1	$ 50	$ 1,008
Reserve for Unfunded Commitments											
Beginning Balance	$ 3	$ —	$ 26	$ 74	$ 14	$ 29	$ 2	$ 2	$ —	$ —	$ 150
Transfers from (to) Allowance for Loan Losses	(1)	—	(2)	—	2	(2)	—	—	—	—	(3)
Ending Balance	$ 2	$ —	$ 24	$ 74	$ 16	$ 27	$ 2	$ 2	$ —	$ —	$ 147
Allowance for Credit Losses	$ 125	$ —	$ 187	$ 550	$ 70	$ 128	$ 15	$ 29	$ 1	$ 50	$ 1,155

[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
June 30, 2023				
CoBank Investments[(1)]	**$ 37,425**	**$ 7**	**$ (2,105)**	**$ 35,327**
Association Investments	**1,741**	**1**	**(46)**	**1,696**
Total	**$ 39,166**	**$ 8**	**$ (2,151)**	**$ 37,023**
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 $6 million at June 30, 2023.

Investment securities increased to $37.0 billion at June 30, 2023 from $34.5 billion at December 31, 2022. The increase in investments was primarily at CoBank and was to enhance its liquidity reserve in response to market volatility and other unfavorable conditions in the banking sector 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 June 30, 2023, CoBank's allowance for credit losses on investment securities was $6 million. The Association with investment securities recorded no allowance for credit losses at June 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 $922 million at June 30, 2023 compared to $942 million at December 31, 2022. Derivative liabilities totaled $1.1 billion at June 30, 2023 and 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 $8 million and $26 million for the first six months of 2023 and 2022, respectively. Changes in the fair value of derivatives recorded as other comprehensive income (loss) totaled net gains of $8 million and $61 million for the first six months of 2023 and 2022, respectively.

District Capital Resources and Other

Combined District shareholders' equity at June 30, 2023 increased to $23.4 billion as compared to $22.6 billion at December 31, 2022. The change primarily resulted from District net income of $1.4 billion and other comprehensive income of $88 million. These factors were somewhat offset by accrued patronage, 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 six months of 2023 and 2022, CoBank retired $8 million and $60 million, respectively, of our 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.

On January 1, 2022, CoBank redeemed all of its outstanding Series G non-cumulative perpetual preferred stock totaling $200 million. The dividend rate for the Series G preferred stock was 6.125 percent through the date of redemption.

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

($ in Millions)

Accumulated Other Comprehensive Loss[1]

		June 30, 2023		December 31, 2022
Unrealized Losses on Investment Securities	**$**	**(1,950)**	$	(2,013)
Net Pension Adjustment		**(323)**		(340)
Unrealized Gains on Interest Rate Swaps and Other Derivatives		**72**		64
Accumulated Other Comprehensive Loss	**$**	**(2,201)**	$	(2,289)

[1] Amounts are presented net of tax.

The change in the District's total accumulated other comprehensive loss during the first six months of 2023 is largely due to a slight decrease 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

				June 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 %	**11.22 %**	**10.58 - 21.97%**	11.62 %	10.09 - 22.00%
Tier 1 capital ratio	CET1 Capital, non-cumulative perpetual preferred stock	6.0 %	8.5 %	**12.92 %**	**12.05 - 21.97%**	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 %	**13.72 %**	**13.15 - 22.31%**	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 %	**13.02 %**	**13.24 - 22.03%**	13.51 %	12.82 - 22.07%
Non-risk adjusted:							
Tier 1 leverage ratio**	Tier 1 Capital	4.0 %	5.0 %	**6.49 %**	**13.81 - 22.82%**	6.80 %	13.29 - 22.65%
UREE leverage ratio	URE and URE Equivalents	1.5 %	1.5 %	**3.01 %**	**12.07 - 22.65%**	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 June 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

On October 26, 2022, the boards of directors of American AgCredit, ACA and Farm Credit of New Mexico, ACA approved an agreement and plan of merger under which Farm Credit of New Mexico, ACA would merge with and into American AgCredit, ACA. On April 5, 2023, FCA granted preliminary approval of the merger. Each Association held a special meeting of stockholders on May 9, 2023, at which the stockholders of both Associations voted to approve the merger. The regulatory 35-day reconsideration period required before the FCA issues final approval expired on June 14, 2023. On June 22, 2023, the FCA notified Farm Credit of New Mexico that a voting stockholder had filed a petition for reconsideration. The FCA determined the petition was properly filed by the Farm Credit of New Mexico voting stockholder and complied with the requirements of the FCA regulations. Accordingly, Farm Credit of New Mexico must hold a reconsideration vote. The Farm Credit of New Mexico board has called a special meeting of stockholders for August 25, 2023, at which time the reconsideration vote will take place. If the reconsideration vote is favorable, a new merger effective date of October 1, 2023, or as soon thereafter as practicable, has been agreed upon.

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 (CECL). 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 at June 30, 2023. 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 recognize the discontinuance of LIBOR presents significant risks and challenges that could have an impact on their businesses and customers. CoBank and our affiliated Associations implemented LIBOR transition plans in accordance with Farm Credit Administration's guidance to address the risks associated with the discontinuance of LIBOR.

The System institutions that comprise the District had exposure to various LIBOR-indexed financial instruments; however, the significant maturity were transitioned to SOFR prior to June 30, 2023. The remaining exposure to LIBOR-indexed financial instruments that mature after June 30, 2023 include a relatively small amount of loans, investment securities, Systemwide Debt Securities, preferred stock and derivative transactions as shown in the table below.

Through June 30, 2023, District institutions implemented fallback language in a substantial majority of loan agreements. 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 reference LIBOR have 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.

The following table presents the District LIBOR-indexed financial instruments by contractual maturity.

LIBOR-Indexed Financial Instruments at June 30, 2023 ($ in Millions)

	Due after June 30, 2023
Commercial Loans [(1)]	$ 3,859
Investment Securities	2,202
Debt	881
Derivatives (Notional Amounts)	13,290
Preferred Stock [(2)]	800

(1) Represents District combined loans after elimination of the direct note between CoBank and its affiliated Associations.
(2) Represents CoBank's non-cumulative perpetual preferred stock with a fixed-to-floating rate dividend feature indexed to 3-month USD LIBOR, and does not have a contractual maturity date. Includes $125 million of CoBank preferred stock that pays a dividend currently indexed to 3-month USD LIBOR plus a spread as of June 30, 2023. Dividends on an additional $300 million and $375 million of CoBank preferred stock convert from a fixed-rate to 3-month USD LIBOR plus a spread in 2025 and 2026, respectively.

During July 2023, the remaining one-month LIBOR-indexed instruments in the table above have transitioned to SOFR pursuant to contractual fallback provisions upon their first LIBOR fixing period after June 30, 2023. The substantial majority of the remaining three-month and other LIBOR-indexed instruments will transition to SOFR through contractual fallback provisions by September 30, 2023. 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.

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.

Recent Developments

Downgrade of the Long-Term Sovereign Credit Rating on the United States and the Long-Term Issuer Default Rating of the System

The System is a government sponsored enterprise (GSE) and CoBank, as a member of the System, has historically benefited from the favorable funding costs and funding flexibility available to us 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. Fitch affirmed the A-1+ short-term rating of the United States. The outlook on the long-term rating of the United States is stable. Subsequently, on August 2, 2023, Fitch Ratings downgraded the long-term issuer default rating for the System to AA+ from AAA; the F1+ short-term rating was affirmed. The outlook on the long-term default rating was revised to stable from ratings watch negative. 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 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.

Moody's Investor Services and S&P Global Ratings currently maintain a long-term sovereign credit rating on the United States of Aaa and AA+, a long-term issuer default rating for the System of Aaa and AA+ and a short-term issuer default rating for the System of P-1 and A-1+.

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.

Subsequent Events

We have evaluated subsequent events through August 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)

	June 30, 2023	December 31, 2022
Assets		
Total Loans	$ **152,672**	$ 152,605
Less: Allowance for Loan Losses	**990**	988
Net Loans	**151,682**	151,617
Cash and Cash Equivalents	**461**	1,123
Federal Funds Sold and Other Overnight Funds	**8,685**	12,401
Investment Securities (net of allowance of $6 million at June 30, 2023)	**37,023**	34,549
Interest Rate Swaps and Other Derivatives	**922**	942
Accrued Interest Receivable and Other Assets	**3,213**	3,304
Total Assets	$ **201,986**	$ 203,936
Liabilities		
Bonds and Notes	$ **174,160**	$ 176,230
Subordinated Debt	**198**	198
Interest Rate Swaps and Other Derivatives	**1,090**	1,079
Reserve for Unfunded Commitments	**131**	182
Patronage Payable	**441**	1,267
Accrued Interest Payable and Other Liabilities	**2,585**	2,349
Total Liabilities	**178,605**	181,305
Shareholders' Equity		
Preferred Stock Issued by Bank	**1,625**	1,633
Preferred Stock Issued by Associations	**319**	303
Common Stock	**1,869**	1,930
Paid In Capital	**3,594**	1,578
Unallocated Retained Earnings	**18,175**	19,476
Accumulated Other Comprehensive Loss	**(2,201)**	(2,289)
Total Shareholders' Equity	**23,381**	22,631
Total Liabilities and Shareholders' Equity	$ **201,986**	$ 203,936

Quarterly District Financial Information

CoBank, ACB and Affiliated Associations

Condensed Combined Statements of Income

(unaudited)

($ in Millions)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Interest Income				
Loans	**$ 2,397**	$ 1,342	**$ 4,712**	$ 2,528
Investment Securities	**320**	147	**603**	260
Federal Funds Sold and Other Overnight Funds	**146**	15	**223**	16
Total Interest Income	**2,863**	1,504	**5,538**	2,804
Interest Expense	**1,811**	470	**3,425**	771
Net Interest Income	**1,052**	1,034	**2,113**	2,033
Provision for Credit Losses	**61**	27	**155**	71
Net Interest Income After Provision for Credit Losses	**990**	1,007	**1,958**	1,962
Noninterest Income				
Net Fee Income	**69**	46	**136**	89
Patronage Income	**55**	45	**102**	92
Prepayment Income	**1**	4	**2**	10
Losses on Early Extinguishments of Debt	**(1)**	(1)	**(1)**	(2)
Losses on Interest Rate Swaps and Other Derivatives	**(17)**	(3)	**(8)**	(26)
(Losses) Gains on Sales of Investment Securities	**(7)**	-	**(7)**	1
Other, Net	**35**	28	**65**	65
Total Noninterest Income	**135**	119	**289**	229
Operating Expenses				
Employee Compensation	**220**	192	**424**	385
Insurance Fund Premium	**64**	82	**128**	135
Information Services	**43**	31	**85**	65
General and Administrative	**22**	22	**49**	42
Occupancy and Equipment	**16**	15	**31**	32
Farm Credit System Related	**10**	9	**19**	18
Purchased Services	**15**	22	**29**	40
Other	**31**	22	**53**	34
Total Operating Expenses	**421**	395	**818**	751
Income Before Income Taxes	**705**	731	**1,429**	1,440
Provision for Income Taxes	**28**	29	**65**	62
Net Income	**$ 677**	$ 702	**$ 1,364**	$ 1,378

Quarterly District Financial Information

CoBank, ACB and Affiliated Associations

Select Information on District Associations

(unaudited)

($ in Millions)

As of June 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]	$ 23,684	35.77 %	$ 30,258	$ 4,920	16.10 %	0.67 %	2.12 %
American AgCredit, ACA[1]	14,970	22.61	18,696	2,711	13.15	1.31	2.16
Farm Credit East, ACA	8,757	13.23	11,045	1,983	17.01	0.31	2.46
Yosemite Farm Credit, ACA	3,389	5.12	4,265	644	14.72	0.50	2.40
Frontier Farm Credit, ACA	2,232	3.37	2,819	511	16.22	0.37	1.58
Golden State Farm Credit, ACA	1,905	2.88	2,400	369	14.60	0.26	2.42
Farm Credit of New Mexico, ACA[1]	1,524	2.30	2,036	443	21.39	0.80	2.02
Oklahoma AgCredit, ACA	1,635	2.47	2,017	314	14.90	1.07	1.59
Farm Credit Western Oklahoma, ACA	1,430	2.16	1,786	290	17.87	0.36	1.42
High Plains Farm Credit, ACA	1,405	2.12	1,776	270	14.71	0.23	2.34
Fresno-Madera Farm Credit, ACA	1,186	1.79	1,570	288	16.72	0.44	1.77
Farm Credit of Southern Colorado, ACA	1,203	1.82	1,547	268	16.84	0.74	1.39
Western AgCredit, ACA	1,030	1.56	1,381	267	18.19	0.96	2.44
Premier Farm Credit, ACA	752	1.14	998	190	17.64	0.66	1.70
Farm Credit Services of Colusa-Glenn, ACA	534	0.81	723	132	16.09	0.27	2.16
Farm Credit of Western Kansas, ACA	322	0.49	455	103	22.31	0.45	1.87
Idaho AgCredit, ACA	250	0.38	369	65	17.95	0.12	2.15
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 intend to merge with a target date of 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 New Mexico, ACA
5651 Balloon Fiesta Parkway NE
Albuquerque, NM 87113
505-884-1048
www.farmcreditnm.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

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

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