SEPTEMBER 30, 2023

QUARTERLY REPORT

FARM CREDIT EAST

Management's Discussion and Analysis

Management's Discussion and Analysis

The following commentary is a review of the financial condition and results of operations of Farm Credit East, ACA (the Association) for the nine-month period ended September 30, 2023. This commentary should be read in conjunction with the accompanying unaudited consolidated financial statements and notes included in this report, as well as the 2022 Annual Report. Dollar amounts are in thousands unless otherwise noted.

The accompanying financial statements were prepared under the oversight of the Audit Committee.

Business Overview

Farm Credit East is a lending institution of the Farm Credit System (the System). The System is a federally chartered network of borrower-owned lending institutions composed of cooperatives and related service organizations. We are a mission-based lender with authority to make loans and provide related financial services to eligible borrowers for qualified agricultural purposes. As a cooperative, the Association is owned by the members it serves. The territory served extends across a diverse agricultural region covering the states of Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island and Vermont. The Association makes short and intermediate term loans for agricultural production and long-term real estate mortgage loans. Our success begins with our extensive agricultural experience and knowledge of the market.

Farm Credit East's annual and quarterly reports to stockholders are available on the Association's website, **Farmcrediteast.com** or can be obtained free of charge by calling the Association's main office at 860-741-4380. Annual reports are available 75 days after year end and quarterly reports are available 40 days after each calendar quarter end. The financial condition and results of operations of CoBank, ACB (Bank), materially affect the risk associated with stockholder investments in Farm Credit East, ACA. To obtain a free copy of the CoBank Annual Report to Stockholders, please contact us at one of our offices or by accessing **CoBank.com**.

Results of Operations

Farm Credit East posted strong financial results for the nine months ending September 30, 2023. Net income was $201.2 million, a decrease of $6.2 million as compared with the same period in 2022 driven by a non-recurring $39.8 million reversal recorded in 2022 to the allowance for loan losses. The 2023 earnings reflect the favorable impact of increased loan volume year over year with net interest income increasing $28.1 million, along with continued stable operating expenses. The Association did record a $2.5 million provision for loan losses for the nine months ending September 30, 2023, as compared to the $39.8 million reversal of loan losses for the same period, as discussed above and in the 'Provision for Loan Losses and Allowance for Credit Losses' section of this report.

The following table reflects key performance results *($ in millions)*.

For the nine months ended September 30	2023	2022
Net income	$ 201.2	$ 207.4
Net interest income	$ 232.9	$ 204.8
Net interest margin	2.94%	2.73%
Return on average assets	2.44%	2.65%
Return on average members equity	12.92%	14.26%

The following table provides detail of changes in the significant components of net income (*$ in millions*).

Increase (Decrease) due to:	2023 versus 2022	2022 versus 2021
Net interest income	$ 28.1	$ 30.0
Provision for/reversal of credit losses	(42.3)	39.8
Noninterest income	6.9	7.4
Noninterest expenses	1.3	(20.5)
Provision for income taxes	(0.2)	(0.1)
Total	$ (6.2)	$ 56.6

Net Interest Income

Net interest income was $232.9 million for the nine months ended September 30, 2023, a $28.1 million increase over the same period in 2022.

Information regarding the average daily balances and average rates earned and paid on our portfolio are presented in the following table:

For the nine months ended September 30	2023	2022
Net interest income	$ 232,942	$ 204,824
Average balances:		
Average interest earning loans	$ 10,598,771	$ 10,035,981
Average interest bearing liabilities	$ 8,734,984	$ 8,304,813
Average rates:		
Interest earning loans	6.71%	4.00%
Interest bearing liabilities	4.15%	1.57%
Interest rate spread	2.56%	2.43%
Net interest margin (interest income as a percentage of average interest earning loans)	2.94%	2.73%

The Association’s average loan rate was 6.71% as of September 30, 2023, up from 4.00% as of September 30, 2022. Average cost of debt funding also increased from 1.57% in 2022 to 4.15% in 2023. Interest rates on variable rate loans and the Association’s cost of debt both increased during 2022 and the first three quarters of 2023 due to monetary actions taken by the Federal Reserve to raise interest rates largely to address rising inflation. Although interest rate spread has increased overall during 2023, we continue to see tightening interest rate spreads associated with new loan volume in certain business segments with strong credit characteristics and strong credit quality within much of the portfolio, both of which warrant lower pricing. Also, as expected in a rising rate environment, the Association’s equity positioning results were lower and part of the overall strategy to stabilize net interest income.

Noninterest income

Noninterest income was $72.2 million for the nine months ended September 30, 2023, a $6.9 million increase over the same period in 2022.

Patronage income from CoBank is a significant part of the Association’s noninterest income. Patronage income is based on the average balance of the Association’s note payable to CoBank. For the nine month period ended September 30, 2023, CoBank patronage income totaled $29.5 million, compared to $28.0 million in 2022. The patronage rate accrued from CoBank on the Association’s note payable is 45 basis points for both the nine months ending September 30, 2023, and 2022.

The Association also receives patronage income from CoBank and other Farm Credit entities that purchased interest in loans originated by the Association. For the nine months ended September 30, 2023, this revenue totaled $12.3 million compared to $9.7 million in 2022.

Noninterest income also includes fees for financial services, loan fees, compensation on participation loans and other noninterest income. These other noninterest income sources totaled $30.4 million for the nine months ended September 30, 2023, an increase of $2.8 million compared to 2022. Financial services fee income is the largest component with $24.8 million in revenue, an increase of $2.1 million compared to 2022. Compensation on participation loans contributed $3.4 million for the nine months ended September 30, 2023 and loan fees and other noninterest income was $2.2 million for the period.

Noninterest expense

Total noninterest expenses totaled $99.7 million for the nine months ended September 30, 2023, a $1.3 million decrease from September 30, 2022.

Salaries and employee benefits is the primary component of noninterest expense and totaled $55.0 million, for the nine months ended September 30, 2023, a decrease of $0.9 million from $55.9 million compared to the same period a year ago. The decrease is primarily due to lower retirement plan expenses.

Insurance Fund premiums were $11.0 million for the nine months ended September 30, 2023, a $0.2 million increase compared to the same period a year ago. Insurance Fund premium rates are set by the Farm Credit System Insurance Corporation and were eighteen basis points of adjusted insured debt obligations for the first nine months of 2023, as compared with twenty basis points from the first nine months of 2022.

Noninterest expenses also include occupancy and equipment expense and other operating expenses totaling $33.7 million for the nine months ended September 30, 2023, an $0.6 million decrease compared to the same period a year ago.

Provision for Income Taxes

The provision for income taxes totaled $1.7 million for the nine months ended September 30, 2023, an increase of $0.2 million from a year ago. The Association's effective tax rate is significantly less than the applicable federal and state tax statutory income tax rates primarily due to tax deductible patronage distributions and our tax-exempt business activities.

Patronage Distributions

The Association has a patronage program that allows it to distribute its available net earnings to its stockholders. The patronage program consists of a qualified cash distribution and a non-qualified distribution.

An anticipated patronage distribution payable to members of $90.0 million was accrued during the first nine months of 2023 compared to $76.5 million accrued the same period a year ago. The total patronage based on 2023 earnings will be payable to members in cash early in 2024 provided the capital and earnings goals for the Association are achieved and subject to approval by the Board of Directors.

At December 31, 2022, liabilities included a $117.0 million patronage distribution payable to members, which has since been distributed in cash.

Loan Portfolio

Loans outstanding were $10.8 billion at September 30, 2023, an increase of $191.6 million, or 1.8% from December 31, 2022. Compared to September 30, 2022, loan volume grew 5.4%. The year over year growth was driven by our combined capital markets group and branch-based farm loan portfolio which grew $471.7 million, or 5.3%. Our residential country living mortgage program grew $83.8 million, or 6.5%, as reasonably strong demand continued in our Local Service Area (LSA) for this product.

While we make loans and provide financially related services to qualified borrowers in agricultural and rural sectors and to certain related entities, our loan portfolio is diversified by loan participations purchased and sold, geographic locations served, commodities financed and loan size.

The Association purchases loan participations from other System and non-System entities to diversify risk related to existing commodities financed within our geographic area served and generate additional income for the ACA. In addition, we sell a portion of certain large loans to other System and non-System entities to reduce risk and comply with internal lending limits we have established. Our volume of participations purchased and sold as of September 30 are reflected in the following table.

September 30	2023	2022
Purchased participations	$ 2,735,800	$ 2,614,134
Sold participations	$ 1,859,921	$ 1,699,540

Loans are originated and serviced within our Local Service Area (LSA) in New York, New Jersey, Maine and throughout the remainder of New England. The geographic distribution of loans follows. As previously mentioned, we purchase loans outside our territory – which are included in other states in the following table.

September 30	2023	2022
New York	41%	41%
New Jersey	9	9
Maine	8	7
Massachusetts	6	6
Vermont	4	4
Connecticut	4	4
New Hampshire, Rhode Island and other states	28	29
Total	100%	100%

The following table shows the breakout of loan volume by the primary agricultural commodities produced by our borrowers based on the Standard Industrial Classification System (SIC) published by the federal government. This system is used to assign commodity or industry categories based on the primary business of the customer. A primary business category is assigned when the commodity or industry accounts for 50% or more of the total value of sales for a business; however, a large percentage of agricultural operations typically includes more than one commodity.

September 30	2023	2022
Dairy	18.0%	18.0%
Processing & marketing	12.1	12.3
Timber	10.6	10.1
Cash field	9.8	10.0
Livestock	8.1	8.1
Fruit	7.6	7.6
Aquatic	5.5	5.2
Utilities	5.3	5.1
Farm services	3.9	3.9
Vegetables	3.2	3.4
Potato	2.9	2.8
Nursery	2.4	2.5
Greenhouse	2.2	2.1
All other	8.4	8.9
Total	100.0%	100.0%

Nonperforming Assets

Nonperforming loan volume is comprised of nonaccrual loans, loans 90 days past due still accruing interest and other property owned. Nonaccrual loans represent all loans where there is a reasonable doubt as to

collection of principal and/or interest. The following table summarizes nonperforming asset and delinquency information:

	September 30, 2023	December 31, 2022
Nonaccrual loans	$ 24,480	$ 39,833
Accruing loans 90 days or more past due	-	-
Other property owned (OPO)	688	827
Total nonperforming assets	$ 25,168	$ 40,660
Nonaccrual loans to total loans	0.23%	0.38%
Nonperforming assets to total loans and OPO	0.23%	0.38%
Delinquencies as a % of total performing loans	0.30%	0.19%

The $15.5 million decrease in nonperforming assets during the first nine months was primarily due to nonaccrual loans in the agribusiness industry paying in full during the second quarter. In general, the Association is adequately secured on much of the $24.5 million in nonaccrual loan volume at September 30, 2023. However, the Association has established specific loan loss allowances of $7.0 million in relation to $13.8 million of the nonaccrual portfolio.

Other property owned is comprised of real or personal property that has been acquired through collections or deed in lieu of foreclosure. Other property owned totaled $0.7 million at September 30, 2023. During the third quarter, the Association sold one property, but did not acquire any properties. The Association is actively marketing all other property owned assets and intends to dispose of all properties in an orderly and timely fashion.

For additional loan type information, see Note 2 to these consolidated financial statements "Loans and Allowance for Credit Losses".

Credit Quality Conditions and Measurements in the Loan Portfolio

We review the credit quality of the loan portfolio on an on-going basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System (UCS) which is used by all System institutions. The following table presents statistics based on UCS classified as a percent of total loans.

September 30	2023	2022
Acceptable	94.73%	94.82%
Special mention	3.46	3.25
Substandard/doubtful	1.81	1.93
Total	100.00%	100.00%

Over the last twelve months, loans classified acceptable decreased slightly by 0.1% of total loans, loans classified as special mention increased by 0.2% while adversely classified loans ("substandard", "doubtful" and "loss") decreased by 0.1% of total loans from a year ago. While overall loan quality measures remain strong at September 30, 2023, the potential for some deterioration during 2023 exists as there is still uncertainty related to inflation, rising interest rates and the Ukraine/Russia conflict and their impacts on the economy.

Credit Risk Management

Credit risk arises from the inability of an obligor to meet its repayment obligation and exists in our outstanding loans, unfunded loan commitments and letters of credit. We manage credit risk associated with our lending activities through an assessment of the credit risk profile of each individual borrower based on an analysis of the borrower's credit history, repayment capacity, financial position and collateral. Repayment capacity focuses on the borrower's ability to repay the loan based on cash flows from operations or other sources of income. The Association also manages credit risk by establishing limits for

single borrower hold positions and industry concentrations based on underlying risks. The geographic and commodity diversity in the loan portfolio, coupled with disciplined underwriting reduces the potential for significant credit losses.

To further manage portfolio risk, the Association is a Preferred Lender under the USDA's Farm Service Agency guarantee program and as of September 30, 2023, has guarantees totaling $315.8 million. In addition, the Association has loan guarantees with State agencies totaling $25.4 million. The Association also participates in the Farmer Mac Long Term Standby Commitment to Purchase Program and as of September 30, 2023, commitments totaling $2.5 million were in this program.

Provision for Loan Losses and Allowance for Credit Losses

We monitor our loan portfolio on a regular basis to determine if any increase through provision for loan losses or decrease through a loan loss reversal in our allowance for loan losses is warranted based on our assessment of the probable and estimable losses inherent in our loan portfolio. The allowance for loan losses covers the funded portion of loans outstanding, while the reserve for unfunded commitments covers losses on unfunded lending commitments.

Effective January 1, 2023, the Association adopted new accounting standards related to credit losses. The guidance requires management to consider in its estimate of the allowance for credit losses (ACL) relevant historical events, current conditions and reasonable and supportable forecasts that affect the collectability of the assets. Upon adoption, the Association added $14.6 million to the ACL with an adjustment to unallocated retained earnings. For further discussion, refer to Note 1 to the consolidated financial statements "Organization and Significant Accounting Policies".

For the nine months ended September 30, 2023, the Association recorded a $2.5 million provision for loan losses. The current year provision is primarily due to increases in loan volume and changes to loan credit quality offset by decreases in specific loss allowances for nonaccrual loans. For the nine months ended September 30, 2022, Farm Credit East recorded a $39.8 million reversal to the allowance for loan losses. The reversal was primarily the result of changes in methodology largely driven by low historical loss experience, and the continued and sustained improvement in loan quality.

Information regarding comparative allowance coverage, as a percentage of key loan categories, are presented in the following table:

September 30	2023	2022
Components:		
Allowance for loan losses	$ 61,573	$ 45,900
Reserve for unfunded commitments	18,013	10,654
Allowance for credit losses (ACL)	$ 79,586	$ 56,554
ACL as a percentage of:		
Total loans	0.74%	0.55%
Nonaccrual loans	325.11%	143.83%
Nonperforming assets	316.22%	134.50%

For further discussion regarding the allowance for loan losses, refer to Note 2 to the consolidated financial statements "Loans and Allowance for Credit Losses".

Liquidity and Funding Sources

The Association's primary source of funding is CoBank. Funds are obtained through borrowing on a revolving line of credit governed by a General Financing Agreement. At September 30, 2023, the Association's note payable to CoBank totaled $8.8 billion.

The line of credit available to the Association is formula-driven based on Association loan volume and credit quality. Because of the funding relationship with CoBank, the Association does not maintain large balances in cash or other liquid investments. Substantially all of the Association's assets are pledged as

security to CoBank. The Association is in full compliance with its financing agreement with CoBank and has capacity under the agreement to borrow funds needed to meet anticipated loan demand.

Members' Equity

In conjunction with its annual financial planning process, the Association's Board of Directors reviews and approves a Capitalization Plan. The objective of the plan is to build and maintain adequate capital for continued financial viability and to provide for growth necessary to meet customer needs. Members' equity, which is available as loanable funds, was $2.1 billion at September 30, 2023, and consisted of capital stock and participation certificates of $18.8 million, additional paid in capital of $354.2 million, unallocated retained earnings of $1.8 billion, and accumulated other comprehensive loss of ($72.1) million.

Capital Plan and Regulatory Requirements

The Board of Directors establishes a formal capital adequacy plan that addresses capital goals in relation to risks. The capital adequacy plan assesses the capital level necessary for financial viability and to provide for growth. Our plan is updated annually and approved as part of the Association's annual Business Plan.

As shown in the following table, our capital and leverage ratios exceeded regulatory minimums. If these capital standards are not met, our regulator the Farm Credit Administration (FCA) can impose restrictions, including limiting our ability to pay patronage distributions and retire equities.

September 30	2023	2022	FCA Minimum with Buffer
Common Equity Tier 1 Capital Ratio (CET1)	16.60%	16.40%	7.00%
Tier 1 Capital Ratio	16.60%	16.40%	8.50%
Total Capital Ratio	17.28%	16.94%	10.50%
Permanent Capital Ratio	16.39%	16.22%	7.00%
Tier 1 Leverage Ratio	18.13%	17.72%	5.00%
UREE Leverage Ratio	17.96%	17.54%	1.50%

For additional information on Capital Regulations, see Note 3 to the consolidated financial statements "Members' Equity".

Critical Accounting Estimates

Management's discussion and analysis of the financial condition and results of operations are based on the Association's consolidated financial statements, which we prepare in accordance with accounting principles generally accepted in the United States of America. In preparing these financial statements, we make estimates and assumptions. Our financial position and results of operations are affected by these estimates and assumptions, which are integral to understanding reported results. For a discussion of significant accounting policies, see Note 1 to the consolidated financial statements "Organization and Significant Accounting Policies".

Business Outlook

Overall GDP growth is projected to slow in the fourth quarter, and perhaps experience a shallow recession in early 2024, before recovering later in the year. While the U.S. economy has thus far proven remarkably resilient, the impact of a slowing global economy and numerous interest rate hikes are building headwinds for U.S. economic growth. Forecasts suggest that real (inflation-adjusted) GDP growth for 2023 will be in the positive 2.1% - 2.3% range and in 2024 decline to a range of plus 0.8% to negative 1.5%.

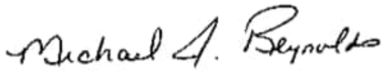
The profit outlook for the commodities served by Farm Credit East is mixed for 2023. Some sectors, such as livestock (particularly beef and eggs) are experiencing relatively high prices, while milk prices have fallen considerably from 2022's highs, reducing margins for dairy producers. Earnings are generally good, although below recent highs for some, in the green industries, fruits and vegetable sectors. With a slowing economy, moderating commodity prices, and high input costs, profit expectations for Northeast farming, fishing, and forest products businesses are expected to decline in 2023 compared to the prior year.

Forward-Looking Statements

Certain information included in this report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "believes," "could," "estimates," "anticipates," "may," "should," "will," or other variations of these terms or similar expressions are intended to identify forward-looking statements. These statements are based on assumptions and analyses made in light of experience, historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to fluctuations in the economy, the relative strengths, and weaknesses in the agricultural credit sectors and in the real estate market, and the actions taken by the Federal Reserve in implementing monetary policy.

Certification

The undersigned certify that they have reviewed this report and it has been prepared in accordance with all applicable statutory and regulatory requirements and that the information contained herein is true, accurate and complete to the best of their knowledge and belief. There were no material changes in the internal control over financial reporting during the nine months ended September 30, 2023.



Michael J. Reynolds	Andrew N. Grant	Laurie K. Griffen
Chief Executive Officer	Chief Financial Officer	Chair of the Board

Dated: November 3, 2023

CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	Unaudited September 30, 2023	December 31, 2022
ASSETS		
Loans	$ 10,764,346	$ 10,572,766
Less: Allowance for loan losses	61,573	51,465
Net loans	10,702,773	10,521,301
Cash	19,959	36,778
Accrued interest receivable	59,313	48,072
Investment in CoBank, ACB	281,362	279,196
Premises and equipment, net	27,306	26,909
Other assets	78,054	100,719
Total Assets	$ 11,168,767	$ 11,012,975
LIABILITIES		
Notes payable to CoBank, ACB	$ 8,797,590	$ 8,704,819
Patronage distributions payable	90,000	117,000
Accrued interest payable	34,482	27,401
Reserve for unfunded commitments	18,013	10,751
Other liabilities	111,282	145,392
Total Liabilities	$ 9,051,367	$ 9,005,363
MEMBERS' EQUITY		
Capital stock and participation certificates	$ 18,770	$ 18,374
Additional paid-in capital	354,163	354,163
Unallocated retained earnings	1,816,547	1,720,025
Accumulated other comprehensive loss	(72,080)	(84,950)
Total Members' Equity	$ 2,117,400	$ 2,007,612
Total Liabilities and Members' Equity	$ 11,168,767	$ 11,012,975

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited and dollars in thousands)

	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
INTEREST INCOME				
Loans	$ 189,594	$ 123,246	$ 539,284	306,145
Other	245	54	772	239
Total interest income	189,839	123,300	540,056	306,384
INTEREST EXPENSE				
Notes payable to CoBank, ACB	110,035	53,563	307,090	101,538
Other	11	10	24	22
Total interest expense	110,046	53,573	307,114	101,560
Net interest income	79,793	69,727	232,942	204,824
Provision for (reversal of) credit losses	581	(3,844)	2,511	(39,779)
Net interest income after provision for (reversal of) loan losses	79,212	73,571	230,431	244,603
NONINTEREST INCOME				
Patronage income	12,096	11,462	41,755	37,694
Financially related services	7,727	6,435	24,761	22,713
Compensation on participation loans, net	1,299	929	3,456	3,018
Loan fees and other noninterest income	1,036	690	2,215	1,880
Total noninterest income	22,158	19,516	72,187	65,305
NONINTEREST EXPENSE				
Salaries and employee benefits	18,271	18,368	55,048	55,904
Insurance Fund premiums	3,642	3,133	11,013	10,826
Occupancy and equipment	1,253	1,325	3,278	3,624
Other noninterest expenses	11,288	12,746	30,389	30,680
Total noninterest expenses	34,454	35,572	99,728	101,034
Income before income taxes	66,916	57,515	202,890	208,874
Provision for income taxes	570	501	1,724	1,506
Net Income	66,346	57,014	201,166	207,368
OTHER COMPREHENSIVE INCOME (LOSS)				
Net change in retirement plan liabilities	-	-	(3)	2
Net change in cash flow hedges	4,324	(17,411)	12,873	(53,055)
Other Comprehensive Income (Loss)	4,324	(17,411)	12,870	(53,053)
Comprehensive Income	$ 70,670	$ 39,603	$ 214,036	$ 154,315

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
(unaudited and dollars in thousands)

	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Unallocated Retained Earnings	Accumulated Other Comprehensive (Loss)	Total Members' Equity
Balance at December 31, 2021	$ 16,688	$ 229,198	$ 1,565,415	$ (44,662)	$ 1,766,639
Comprehensive income (loss)	-	-	207,368	(53,053)	154,315
Capital stock and participation certificates issued	1,386	-	-	-	1,386
Capital stock and participation certificates retired	(965)	-	-	-	(965)
Equity re-characterized upon merger	1,147	124,965	-	-	126,112
Patronage Distribution	-	-	(76,500)	-	(76,500)
Balance at September 30, 2022	$ 18,256	$ 354,163	$ 1,696,283	$ (97,715)	$ 1,970,987
Balance at December 31, 2022	$ 18,374	$ 354,163	$ 1,720,025	$ (84,950)	$ 2,007,612
Cumulative effect of adjustment from change in accounting principle	-	-	(14,644)	-	(14,644)
Balance at January 1, 2023, as adjusted	$ 18,374	$ 354,163	$ 1,705,381	$ (84,950)	$ 1,992,968
Comprehensive income	-	-	201,166	12,870	214,036
Capital stock and participation certificates issued	1,205	-	-	-	1,205
Capital stock and participation certificates retired	(809)	-	-	-	(809)
Patronage Distribution	-	-	(90,000)	-	(90,000)
Balance at September 30, 2023	$ 18,770	$ 354,163	$ 1,816,547	$ (72,080)	$ 2,117,400

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements
(unaudited and dollars in thousands except as noted)

NOTE 1 – Organization and Significant Accounting Policies

Farm Credit East, ACA (the Association or ACA) and its subsidiaries are part of the Farm Credit System. A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2022, are contained in the 2022 Annual Report to Stockholders (Annual Report). These unaudited third quarter 2023 financial statements should be read in conjunction with the 2022 Annual Report to Stockholders.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2022, as contained in the 2022 Annual Report to Stockholders.

In the opinion of management, the unaudited financial information is complete and reflects, all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ended December 31, 2023. Descriptions of the significant accounting policies are included in the 2022 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform to GAAP and prevailing practices within the banking industry.

Recently Adopted or Issued Accounting Pronouncements

The Association adopted the Financial Accounting Standards Board (FASB) guidance entitled "Measurement of Credit Losses on Financial Instruments" (CECL) and other subsequently issued accounting standards updates related to credit losses on January 1, 2023. This guidance replaced the incurred loss impairment methodology with a single allowance framework for financial assets carried at amortized cost and certain off-balance sheet credit exposures. This guidance requires management to consider in its estimate of the allowance for credit losses (ACL) relevant historical events, current conditions and reasonable and supportable forecasts that affect the collectability of the assets.

The following table presents the impact to the allowance for credit losses and retained earnings upon adoption of this guidance on January 1, 2023

(in thousands)	December 31, 2022	CECL adoption impact	January 1, 2023
Assets:			
Allowance for credit losses on loans	$ 51,465	$ 8,891	$ 60,356
Liabilities:			
Allowance for credit losses on unfunded commitments	$ 10,751	$ 5,753	$ 16,504
Retained earnings:			
Unallocated retained earnings, net of tax	$ 1,720,025	$ (14,644)	$ 1,705,381

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

disclosure of current period gross write-offs by year of origination for financing receivables on a prospective basis.

Loans and Allowance for Credit Losses

Loans are generally carried at their principal amount outstanding adjusted for charge-offs, deferred loan fees or costs. Loan origination fees and direct loan origination costs are netted and capitalized, and the net fee or cost is amortized over the average life of the related loan as an adjustment to interest income. Loan prepayment fees are reported in interest income. Interest on loans is accrued and credited to interest income based on the daily principal amount outstanding.

Nonaccrual Loans

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

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

When loans are in nonaccrual status, the Association's general practice is to apply and record on its financial records any payments received on nonaccrual loans in the following sequence: (1) to existing principal which includes outstanding principal, accounts receivable and accrued interest receivable as of the date of transfer into nonaccrual status plus any additional advances made since the loan was placed in nonaccrual status; (2) to recover any charged-off amount; and (3) to interest income. Nonaccrual loans may, at times, be maintained on a cash basis. Generally, cash basis refers to the recognition of interest income from cash payments received on certain nonaccrual loans for which the collectability of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered prior charge-off associated with it. Nonaccrual loans may be returned to accrual status when principal and interest are current, and reinstatement is supported by a period of sustained performance in accordance with the contractual terms of the note and/or loan agreement and the loan is not classified "doubtful" or "loss."

Accrued interest receivable

The Association elected to continue classifying accrued interest on loans in accrued interest receivable and not as part of loans on the Consolidated Balance Sheet. The Association also elected to not estimate an allowance on interest receivable balances because the nonaccrual policies in place provide for the accrual of interest to cease on a timely basis when all contractual amounts are not expected

Loan Modifications to Borrowers Experiencing Financial Difficulty

Loan modifications may be granted to borrowers experiencing financial difficulty. Modifications can be in the form of one or a combination of principal forgiveness, interest rate reduction, other-than-insignificant payment delay or a term extension. Covenant waivers and modifications of contingent acceleration clauses are not considered term extensions.

Collateral dependent loans

Collateral dependent loans are loans secured by collateral, including but not limited to agricultural real estate, crop inventory, equipment and livestock. CECL requires an entity to measure the expected credit losses based on fair value of the collateral at the reporting date when the entity determines that foreclosure

is probable. Additionally, CECL allows a fair value practical expedient as a measurement approach for loans when the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulties. Under the practical expedient measurement approach, the expected credit losses are based on the difference between the fair value of the collateral less estimated costs to sell and the amortized cost basis of the loan.

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

- the allowance for credit losses on loans (ACLL)
- the allowance for unfunded commitments

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

The ACLL represents management's estimate of credit losses over the remaining expected life of loans. Loans are evaluated on the amortized cost basis, including premiums and discounts.

The Association employs a disciplined process and methodology to establish its ACLL that has two basic components: first, an asset-specific component involving individual loans that do not share risk characteristics with other loans and the measurement of expected credit losses for such individual loans; and second, a pooled component for estimated expected credit losses for pools of loans that share similar risk characteristics.

Asset-specific loans are generally collateral dependent loans and nonaccrual loans. For these loans, the credit loss is measured as the difference between the amortized cost basis in the loan and the fair value of the underlying collateral. The fair value of the collateral is adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral. In accordance with the Association's appraisal policy, the fair value of collateral-dependent loans is based upon independent third-party appraisals or on collateral valuations prepared by in-house appraisers. When an updated appraisal or collateral valuation is received, management reassesses the need for adjustments to the loan's expected credit loss measurements and, where appropriate, records an adjustment.

In estimating the component of the ACLL that share common risk characteristics, loans are evaluated collectively and segregated into loan pools considering the risk associated with the specific pool. Relevant risk characteristics include loan type, commodity, credit quality rating, business segment or a combination of these classes. The allowance is determined based on a quantitative calculation of the expected life-of-loan loss percentage for each loan category by considering the probability of default, based on the migration of loans from performing to loss by credit quality rating using historical life-of-loan analysis periods for loan types, and the severity of loss, based on Farm Credit System guidance on expected loss rates for each loss given default (LGD) category.

The component of the ACLL also considers factors for each loan pool to adjust for differences between the historical period used to calculate historical default and loss severity rates and expected conditions over the remaining lives of the loans in the portfolio related to:

- lending policies and procedures;
- national, regional and local economic business conditions and developments that affect the collectability of the portfolio, including the condition of various markets;
- the nature of the loan portfolio, including the terms of the loans;
- the experience, ability and depth of the lending management and other relevant staff;
- the volume and severity of past due and adversely classified or graded loans and the volume of nonaccrual loans;
- the quality of the loan review and process;
- the value of underlying collateral for collateral-dependent loans;
- the existence and effect of any concentrations of credit and changes in the level of such concentrations; and
- the effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio.

The Association uses multiple economic scenarios that are considered reasonable and supportable over the contractual life of the loan. The economic forecasts are considered reasonable and supportable over the life of the loan because they are produced by an economic model that incorporates linkages between sectors and the economy, are based on information from past business cycles and current conditions, and converge to a long-run equilibrium trend.

The economic forecasts incorporate macroeconomic variables, including unemployment rates, adjusted for government subsidies, agricultural commodity prices and price indices, and utilities sales and price indices. Also considered are loan and borrower characteristics, such as internal risk ratings, loan type, collateral position, and the remaining term of the loan, adjusted for expected prepayments.

In addition to the quantitative calculation, the Association considers the imprecision inherent in the process and methodology, emerging risk assessments and other subjective factors, which may lead to a management adjustment to the modeled ACLL results. Expected credit loss estimates also include consideration of expected cash recoveries on loans previously charged-off or expected recoveries on collateral dependent loans where recovery is expected through sale of the collateral. The economic forecasts are updated on a quarterly basis.

Prior to January 1, 2023, the allowance for loan losses was maintained at a level considered adequate to provide for probable losses existing in and inherent in the loan portfolio. The allowance was based on a periodic evaluation of the loan portfolio in which numerous factors are considered, including economic conditions, collateral values, borrowers’ financial conditions, loan portfolio composition and prior loan loss experience. The allowance for loan losses encompassed various judgments, evaluations and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity would cause these various judgments, evaluations and appraisals to change over time. Management considered a number of factors in determining and supporting the levels of the allowances for loan losses, which include, but are not limited to, the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

Allowance for Credit Losses on Unfunded Commitments
The Association evaluates the need for an allowance for credit losses on unfunded commitments under CECL and, if required, an amount is recognized and is shown as a liability on the Consolidated Balance Sheet. The amount of expected losses is determined by calculating a commitment usage factor over the contractual period for exposures that are not unconditionally cancellable by the institution and applying the loss factors used in the ACLL methodology to the results of the usage calculation. No allowance for credit losses is recorded for commitments that are unconditionally cancellable.

NOTE 2 – Loans and Allowance for Credit Losses

Loans Outstanding

Loans outstanding by loan type are shown below.

	September 30, 2023		December 31, 2022	
Real estate mortgage	$ 4,341,246	40.3%	$ 4,299,432	40.7%
Production and intermediate	3,322,429	30.9	3,412,294	32.3
Agribusiness	2,384,352	22.2	2,213,440	20.9
Rural infrastructure	595,285	5.5	537,580	5.1
Rural residential real estate	76,396	0.7	67,199	0.6
Other	44,638	0.4	42,821	0.4
Total	$ 10,764,346	100.0%	$ 10,572,766	100.0%

Credit Quality

Credit risk arises from the potential inability of an obligor to meet its payment obligation and exists in our outstanding loans, letters of credit and unfunded loan commitments. The Association manages credit risk associated with the retail lending activities through an analysis of the credit risk profile of an individual borrower using its own set of underwriting standards and lending policies. The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, financial position and collateral, which includes an analysis of credit scores for smaller loans. Repayment capacity focuses on the borrower's ability to repay the loan based on cash flows from operations or other sources of income, including off-farm income. Real estate mortgage loans must be secured by first liens on the real estate (collateral). The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock as well as receivables. Long-term real estate loans are secured by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85% (97% if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in the loan to value ratios in excess of the regulatory maximum.

To mitigate the risk of loan losses, the Association may enter into long-term standby commitments to purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac). The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of default (typically four months past due), subject to certain conditions. The balance of loans under long-term standby commitments was $2.5 million at September 30, 2023, and $4.7 million at December 31, 2022. Fees paid to Farmer Mac for such commitments totaled $15 thousand for the nine months ended September 30, 2023, and $21 thousand at September 30, 2022. These amounts are classified as noninterest expense. In addition to Farmer Mac, the Association has credit enhancements with federal and state government agencies totaling $341.2 million at September 30, 2023, and $343.2 million at December 31, 2022.

The Association uses a two-dimensional loan rating model based on an internally generated combined System risk rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the twelve months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower

of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality,
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness,
- Substandard – assets exhibit some serious weakness in repayment capacity, equity, 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 shows loans classified, by management, under the Farm Credit Administration (FCA) Uniform Loan Classification System as a percentage of total loans by loan type.

	September 30, 2023	December 31, 2022[1]
Real estate mortgage		
Acceptable	37.6%	38.2%
OAEM	1.8	1.7
Substandard/doubtful	0.9	0.8
Production and intermediate		
Acceptable	29.3	30.6
OAEM	1.1	1.0
Substandard/doubtful	0.5	0.7
Agribusiness		
Acceptable	21.3	20.0
OAEM	0.5	0.6
Substandard/doubtful	0.4	0.3
Rural infrastructure		
Acceptable	5.4	5.0
OAEM	0.1	0.1
Substandard/doubtful	-	-
Rural residential real estate		
Acceptable	0.7	0.6
OAEM	-	-
Substandard/doubtful	-	-
Other		
Acceptable	0.4	0.4
OAEM	-	-
Substandard/doubtful	-	-
Total loans		
Acceptable	94.7%	94.8%
OAEM	3.5%	3.4%
Substandard/doubtful	1.8%	1.8%

[1] Prior to the adoption of CECL on January 1, 2023, loans were presented with accrued interest receivables

The following table presents credit quality indicators by loan type and related principal balance as of September 30, 2023:

	Term Loans Amortized Cost Basis by Origination Year								
	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
Real estate mortgage									
Acceptable	$ 327,790	$ 646,223	$ 694,216	$ 536,302	$ 345,329	$ 1,442,184	$ 44,558	$ 13,662	$ 4,050,264
OAEM	11,672	49,654	10,968	32,485	16,120	55,561	17,010	-	193,470
Substandard/doubtful	2,609	25,022	6,018	12,160	6,745	42,732	2,195	31	97,512
Gross charge offs	-	12	-	-	-	65	-	-	77
Production and intermediate									
Acceptable	490,583	492,635	207,374	223,619	58,494	119,585	1,532,292	30,042	3,154,624
OAEM	30,809	18,945	5,458	13,961	1,231	1,510	40,020	1,609	113,543
Substandard/doubtful	9,854	10,544	1,296	1,282	1,486	3,064	15,968	10,768	54,262
Gross charge offs	-	685	-	-	-	-	-	45	730
Agribusiness									
Acceptable	449,247	432,096	214,787	212,408	24,270	167,453	779,574	15,336	2,295,171
OAEM	3,479	7,974	5,029	14,402	229	4,159	14,426	19	49,717
Substandard/doubtful	7,584	67	195	21,004	306	1,260	8,492	556	39,464
Gross charge offs	-	-	-	-	2	-	-	14	16
Rural infrastructure									
Acceptable	64,679	112,578	192,172	144,585	1,448	32,262	31,466	-	579,190
OAEM	-	-	-	-	-	13,217	-	-	13,217
Substandard/doubtful	-	-	-	-	2,563	-	-	315	2,878
Gross charge offs	-	-	-	-	1	-	-	-	1
Rural residential real estate									
Acceptable	11,431	13,374	9,230	10,914	5,331	24,598	-	-	74,878
OAEM	-	-	-	-	238	710	-	-	948
Substandard/doubtful	2	26	57	-	248	237	-	-	570
Gross charge offs	1	-	-	-	-	-	-	-	1
Other									
Acceptable	9,730	-	8,927	-	2,999	19,778	3,204	-	44,638
OAEM	-	-	-	-	-	-	-	-	-
Substandard/doubtful	-	-	-	-	-	-	-	-	-
Gross charge offs	-	-	-	-	-	-	-	-	-
Total loans									
Acceptable	$ 1,353,460	$ 1,696,906	$ 1,326,706	$ 1,127,828	$ 437,871	$ 1,805,860	$ 2,391,094	$ 59,040	$ 10,198,765
OAEM	$ 45,960	$ 76,573	$ 21,455	$ 60,848	$ 17,818	$ 75,157	$ 71,456	$ 1,628	$ 370,895
Substandard/doubtful	$ 20,049	$ 35,659	$ 7,566	$ 34,446	$ 11,348	$ 47,293	$ 26,655	$ 11,670	$ 194,686
Total loans	$ 1,419,469	$ 1,809,138	$ 1,355,727	$ 1,223,122	$ 467,037	$ 1,928,310	$ 2,489,205	$ 72,338	$ 10,764,346
Total current period gross charge offs	$ 1	$ 697	$ -	$ -	$ 3	$ 65	$ -	$ 59	$ 825

Accrued interest receivable on loans of $59.3 million and $48.1 million at September 30, 2023, and December 31, 2022 respectively, have been excluded from the amortized cost of loans and reported separately in the Consolidated Balance Sheets. The Association wrote off accrued interest receivable of $0.3 million and $0.1 million for the nine months ended September 30, 2023, and 2022.

The following table reflects nonperforming assets, which consist of nonaccrual loans and other property owned:

	September 30, 2023	December 31, 2022
Nonaccrual loans		
Real estate mortgage	$ 7,286	$ 8,892
Production and intermediate term	3,830	29,112
Agribusiness	9,924	1,532
Rural Infrastructure	2,880	-
Rural residential real estate	560	297
Total nonaccrual loans	$ 24,480	$ 39,833
Accruing loans 90 days or more past due		
Total accruing loans 90 days or more past due	$ -	$ -
Other property owned (OPO)	$ 688	$ 827
Total nonperforming assets	$ 25,168	$ 40,660
Nonaccrual loans to total loans	0.23%	0.38%
Nonperforming assets to total loans and OPO	0.23%	0.38%
Nonperforming assets as a percentage of capital	1.19%	2.03%

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

	September 30, 2023			For the Nine Months Ended September 30, 2023
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	Interest Income Recognized
Nonaccrual Loans:				
Real estate mortgage	$ 2,347	$ 4,939	$ 7,286	$ 1,651
Production and intermediate	1,999	1,831	3,830	2,518
Agribusiness	6,754	3,170	9,924	(72)
Rural infrastructure	2,563	317	2,880	(42)
Rural residential real estate	141	419	560	1
Total	$ 13,804	$ 10,676	$ 24,480	$ 4,056

The Association has established specific loan loss allowances of $7.0 million in relation to the $13.8 million of the nonaccrual portfolio.

Loan Delinquencies

The following tables provide an aging of past due loans at amortized cost:

September 30, 2023	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 21,788	$ 4,916	$ 26,704	$4,314,542	$ 4,341,246	$ -
Production and intermediate term	9,047	3,477	12,524	3,309,905	3,322,429	-
Agribusiness	1,740	9,924	11,664	2,372,688	2,384,352	-
Rural infrastructure	-	-	-	595,285	595,285	-
Rural residential real estate	-	289	289	76,107	76,396	-
Other	-	-	-	44,638	44,638	-
Total	$ 32,575	$ 18,606	$ 51,181	$10,713,165	$ 10,764,346	$ -

December 31, 2022	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Accruing Loans 90 days or More Past Due
Real estate mortgage	$ 10,964	$ 5,214	$ 16,178	$ 4,283,254	$ 4,299,432	$ -
Production and intermediate term	8,015	3,261	11,276	3,401,018	3,412,294	-
Agribusiness	2,037	1,328	3,365	2,210,075	2,213,440	-
Rural infrastructure	-	-	-	537,580	537,580	-
Rural residential real estate	116	270	386	66,813	67,199	-
Other	-	-	-	42,821	42,821	-
Total	$ 21,132	$ 10,073	$ 31,205	$ 10,541,561	$ 10,572,766	$ -

Allowance for Credit Losses

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

	September 30, 2023	September 30, 2022[1]
Allowance for Loan Losses		
Beginning balance at December 31	$ 51,465	$ 80,335
Cumulative effect of adjustment from change in accounting principle	8,891	-
Balance at January 1	60,356	80,335
Charge-offs	(825)	(272)
Recoveries	1,040	206
Provision for (Reversal of) loan losses	1,002	(39,779)
Transfers from (to) reserve for unfunded commitments	-	5,410
Ending balance	$ 61,573	$ 45,900
Reserve for Unfunded Commitments		
Beginning balance at December 31	$ 10,751	$ 16,064
Cumulative effect of adjustment from change in accounting principle	5,753	-
Balance at January 1	16,504	16,064
Provision for unfunded commitments	1,509	-
Transfers (to) from allowance for loan losses	-	(5,410)
Ending balance	$ 18,013	$ 10,654
Allowance for Credit Losses	$ 79,586	$ 56,554

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

Loan Modifications to Borrowers Experiencing Financial Difficulties

Loan modifications may be granted to borrowers experiencing financial difficulty. Qualifying disclosable modifications are one or a combination of principal forgiveness, interest rate reduction, forbearance or term extension. Covenant waivers and modifications of contingent acceleration clauses are not considered term extensions. Also included in the following disclosures are other-than-insignificant payment deferrals that may provide the borrower with a temporary payment deferral, which has been defined as cumulative or individual forbearance or payment delay greater than or equal to 6 months. These deferred payments may be capitalized into the principal balance of the loan and amortized with no extension of maturity or with the deferred payment due at the time of original maturity.

The following tables show the amortized cost basis at the end of the reporting period for loan modifications granted to borrowers experiencing financial difficulty during the nine months ended September 30, 2023, disaggregated by loan type and type of modification granted.

September 30, 2023	Interest Rate Reduction	Term Extension	Payment Extension	Principal Forgiveness	Combination – Interest Rate & Term Extension	Combination – Interest Rate & Payment Extension	Combination – Interest Rate & Principal Forgiveness	Combination – Term Extension & Principal Forgiveness	Combination – Term Extension & Payment Extension	Combination –Payment Extension & Principal Forgiveness	% of Total by Loan Type
Real estate mortgage	$ 147	4,253	$ 123	$ -	$ -	$ 272	$ -	$ -	$ 99	$ -	-
Production and intermediate	829	10,387	207	-	58	-	-	-	-	-	-
Agribusiness	-	6,164	-	-	-	-	-	-	-	-	-
Rural residential real estate	-	83	-	-	-	-	-	-	-	-	-
Total	$ 976	$ 20,887	$ 330	$ -	$ 58	$ 272	$ -	$ -	$ 99	$ -	-

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty as of September 30, 2023, was $0.3 million.

There were no loans to borrowers experiencing financial difficulty that received a modification on or after January 1, 2023, the date of adoption of the guidance “Financial Instruments – Credit Losses: Troubled Debt Restructurings and Vintage Disclosure”, through September 30, 2023, and that subsequently defaulted.

The following table sets forth an aging analysis of loans to borrowers experiencing financial difficulty that were modified on or after January 1, 2023, the date of the adoption of the guidance noted above, through September 30, 2023:

	Payment Status of Loans Modified in the Past 12 Months		
	Current	30-89 Days Past Due	90 Days or More Past Due
Real estate mortgage	$ 3,849	$ 40	$ 761
Production and intermediate	9,991	887	603
Agribusiness	262	-	5,871
Rural residential real estate	-	-	83
Total	$ 14,102	$ 927	$ 7,318

Additional commitment to lend to borrowers experiencing financial difficulty whose loans have been modified were $0.6 million at September 30, 2023.

Troubled Debt Restructuring

Prior to January 1, 2023, the adoption date of updated FASB guidance on loan modifications, a restructuring of a loan, constituted a troubled debt restructuring (TDR), also known as formally restructured, if the creditor for economic or legal reasons related to the borrower’s financial difficulties granted a concession to the borrower that it would not otherwise consider. Concessions varied by program and were borrower-specific and could include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may have been forgiven. When a restructured loan constituted a troubled debt restructuring, these loans were included within our impaired loans under nonaccrual or accruing restructured loans.

The following table presents additional information regarding troubled debt restructurings that occurred during the period:

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2022	December 31, 2022	September 30, 2022	December 31, 2022
Real estate mortgage	$ 3,024	$ 2,990	$ 397	$ 386
Production and intermediate term	111	58	11	10
Total	$ 3,135	$ 3,048	$ 408	$ 396

*Represents the portion of loans modified as TDRs (first column) that are in nonaccrual status

NOTE 3 – Members' Equity

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below. Members' equity is described and governed by the Association's capitalization policies. Farm Credit East's capitalization policies are specified in the Bylaws and in the Capitalization Plan approved by the Board of Directors. Copies of the Association's Bylaws and Capitalization Plan are available to members at any time.

Capital stock and participation certificates

In accordance with the Farm Credit Act, and the Association's capitalization Bylaws and Capitalization Plan, each Association borrower, as a condition of borrowing, is required at the time the loan is made, to invest in Class B stock for agricultural loans or Class B participation certificates for country home and farm related business loans. Association Bylaws require that borrowers acquire capital stock or participation certificates, as a condition of borrowing, at least the lesser of $1,000 or 2% of the amount of the loan, and not more than 10% of the amount of the loan. Pursuant to the Association Capitalization Plan, the Association Board has determined that Class B stock and Class B participation certificates shall be issued as follows:

For all loans (except where indicated below) Class B stock and Class B participation certificates shall be issued equal to one thousand dollars per customer as a condition of borrowing from this Association. For purposes of borrower stock, a customer is defined as the primary borrower on a loan. The intent of this policy is for each primary customer to have one thousand dollars of stock, regardless of the number of loans or balance on those loans to that customer. Stock shall be purchased at the beginning of a customer's relationship and will not be retired until all loans to that customer are paid in full and there are no funds available for advances.

Exceptions to this policy are:

- At the time of the Farm Credit East mergers in 2010, 2014 and 2022 certain customers with less than one thousand dollars of stock were "grandfathered" at the stock level at conversion. Grandfathered customer stock will be frozen at converted levels until all loans are repaid, at which time the stock will be retired, or increased to one thousand dollars at the time of a future advance or credit action.
- Certain small borrowers (customers with total commitment less than ten thousand dollars initially) will be issued at 10% of the initial commitment, consistent with By-Law limitations.
- Certain interests in loans sold to other financial institutions.
- Loans to be sold into the secondary market

All stock and participation certificates are retired at the discretion of the Association's Board of Directors after considering the capitalization plan as well as regulatory and other requirements.

Regulatory capitalization requirements and restrictions

The Farm Credit Administration (FCA) sets minimum regulatory capital requirements for Banks and Associations.

At September 30, 2023, the Association's capital and leverage ratios exceeded regulatory minimums as shown in the following table.

Ratio	Primary Components of Numerator	Denominator	Minimum Requirement	Minimum with Buffer	Ratios as of September 30, 2023
Common Equity Tier 1 (CET1) Capital	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity)[1]	Risk-adjusted assets	4.5%	7.0%	16.60%
Tier 1 Capital	CET1 Capital, non-cumulative perpetual preferred stock	Risk-adjusted assets	6.0%	8.5%	16.60%
Total Regulatory Capital (TRC)	Tier 1 Capital, allowance for loan losses[2], common cooperative equities[3], and term preferred stock and subordinated debt[4]	Risk-adjusted assets	8.0%	10.5%	17.28%
Permanent Capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	Risk-adjusted assets	7.0%	-	16.39%
Tier 1 Leverage*	Tier 1 Capital	Total assets	4.0%	5.0%	18.13%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	URE and URE Equivalents	Total assets	1.5%	-	17.96%

* Must include the 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] Outstanding 5 or more years, but less than 7 years
[4] Outstanding 5 or more years

Patronage Distribution

In December 2022, the Board of Directors approved a patronage resolution. This resolution will allow the Association to pay a patronage refund on 2023 income provided the capital goals and earnings for the Association are achieved. The patronage program is described more fully in the 2022 Annual Report to Stockholders.

Accumulated Other Comprehensive (Loss)

The Association reports accumulated other comprehensive (loss) as a component of members' equity. Other comprehensive income refers to revenue, expenses, gains and losses that under GAAP are reported as an element of members' equity and comprehensive income but excluded from net income. Other comprehensive (loss) results from the recognition of the retirement plans net unamortized gains and losses and prior service costs or credits of ($30.5) million at September 30, 2023, and at December 31, 2022. Also included in accumulated other comprehensive income/loss is the unrealized holding gain or loss on cash flow derivatives of ($41.6) million and ($54.5) million at September 30, 2023, and December 31, 2022, respectively. There are no other items affecting comprehensive income or loss.

NOTE 4 – Fair Value Measurements

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. The fair value measurement is not an indication of liquidity. See Note 2 and Note 15 to the 2022 Annual Report to Stockholders for additional information.

Sensitivity to Changes in Significant Unobservable Inputs

Quoted market prices may not be available for the instruments presented below. Accordingly, fair values are based on internal models that consider judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Quantitative Information about Recurring and Nonrecurring Fair Value Measurements

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

Assets and liabilities measured at fair value on a recurring basis at period end for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
September 30, 2023				
Derivative assets	$ -	$ -	$ -	$ -
Assets held in trust	$ 8,028	$ -	$ -	$ 8,028
December 31, 2022				
Assets held in trust	$ 7,323	$ -	$ -	$ 7,323
Liabilities:				
September 30, 2023				
Derivative liabilities	$ -	$ 41,617	$ -	$ 41,617
December 31, 2022				
Derivative liabilities	$ -	$ 54,490	$ -	$ 54,490

Assets measured at fair value on a non-recurring basis at period end for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
September 30, 2023				
Nonaccrual loans	$ -	$ -	$ 17,492	$ 17,492
Other Property Owned	$ -	$ -	$ 770	$ 770
December 31, 2022				
Nonaccrual loans	$ -	$ -	$ 31,106	$ 31,106
Other Property Owned	$ -	$ -	$ 967	$ 967

Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the Balance Sheet for each of the fair value hierarchy values are summarized below:

	September 30, 2023			December 31, 2022		
	Carrying Amount	Fair Value	Fair Value Hierarchy	Carrying Amount	Fair Value	Fair Value Hierarchy
Financial assets:						
Loans, net	$ 10,702,773	$ 10,256,632	Level 3	$ 10,521,301	$ 10,180,486	Level 3
Cash	$ 19,959	$ 19,959	Level 1	$ 36,778	$ 36,778	Level 1
Financial liabilities:						
Notes payable to ACB	$ 8,797,590	$ 8,333,583	Level 3	$ 8,704,819	$ 8,268,326	Level 3

Valuation Techniques

As more fully discussed in Note 2 to the 2022 Annual Report to Stockholders, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a summary of the valuation techniques used for the Association's assets and liabilities.

Cash

The carrying value of cash is a reasonable estimate of fair value.

Assets Held in Trust

Assets held in trust funds related to deferred compensation and supplemental retirement plans and are classified within Level 1. These assets include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Loans

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

Other Property Owned

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

Loans Evaluated for Impairment

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

Notes payable to CoBank, ACB

The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the note payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

Derivatives
Exchange-traded derivatives valued using quoted prices are classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the Association's derivative positions are valued using internally developed models that use as their basis readily observable market parameters and are classified within Level 2 of the valuation hierarchy. Such derivatives include basic interest rate swaps. Derivatives that are valued based upon models with significant unobservable market parameters and that are normally traded less actively or have trade activity that is one way are classified within Level 3 of the valuation hierarchy. The Association does not have any derivatives classified within Level 3.

The models used to determine the fair value of derivative assets and liabilities use an income approach based on observable market inputs, primarily the Secured Overnight Financing Rate (SOFR) swap curve and volatility assumptions about future interest rate movements.

NOTE 5 – Derivative Instruments and Hedging Activities

Risk Management Objectives
The Association maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The Association's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets or liabilities so that the net interest margin is not adversely affected by movements in interest rates. As a result of interest rate fluctuations, the Association's interest income and interest expense of hedged variable-rate assets will increase or decrease. The effect of this variability in earnings is expected to be substantially offset by the Association's gains and losses on the derivative instruments that are linked to these hedged assets. The Association considers its strategic use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

By using derivative instruments, the Association exposes itself to credit and market risk. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the Association, thus creating a repayment risk for the Association. When the fair value of the derivative contract is negative, the Association owes the counterparty and, therefore, assumes no repayment risk. The Association's derivative activities are monitored by its asset/liability committee (ALCO) as part of its oversight of asset/liability and treasury functions.

Uses of Derivatives
The Association enters into interest rate swaps to stabilize net interest income on variable priced loan assets, to the extent they are funded with equity. Under interest rate swap arrangements, the Association agrees with other parties (CoBank) to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index. The Association's interest-earning assets, to the degree they are funded with debt, are matched with similarly priced and termed liabilities. Volatility in net interest income comes from equity funded variable priced assets. To the degree that variable priced assets are funded with equity, interest rate swaps in which the Association pays the floating rate and receives the fixed rate (receive fixed swaps) are used to reduce the impact of market fluctuations on the Association's net interest income.

The notional amounts of derivatives are shown in the following table:

	September 30, 2023	December 31, 2022
Interest rate contracts	$ 1,570,000	$ 1,430,000

Accounting for Derivative Instruments and Hedging Activities
The Association records derivatives as assets and liabilities at their fair value in the consolidated balance sheets and records changes in the fair value of a derivative in accumulated other comprehensive income (loss). The Association only enters into cash flow hedge transactions.

Cash Flow Hedges

The Association uses "receive fixed/pay variable" interest rate swaps to hedge the risk of overall changes in the cash flows of an asset. The asset is defined as a pool of long-term variable rate loans equal to the notional amount of the swaps, and not exceeding the Association's equity position. These swaps, which qualify for hedge accounting, have up to a nine-year term, with a pay rate indexed to a SOFR.

Summary of Derivative Instruments and Hedging Activities

A summary of the impact of derivative financial instruments in the consolidated balance sheets is shown in the following table:

	Derivative Assets [1]	Derivative Liabilities [2]
September 30, 2023		
Interest rate contracts	$ -	$ 41,617
December 31, 2022		
Interest rate contracts	$ -	$ 54,490

[1] Derivative assets are included in other assets in the consolidated balance sheets
[2] Derivative liabilities are included in other liabilities in the consolidated balance sheets

A summary of the impact of derivative financial instruments in the consolidated statements of comprehensive income is shown in the following tables:

	Net Amount of Gain or (Loss) Recognized in Income on Derivatives [1]	
September 30	**2023**	**2022**
Interest rate contracts	$ (36,739)	$ (5,024)

[1] Located in interest expense in the consolidated statements of income for each of the respective periods presented.

	Amount of Gain (Loss) Recognized in Accumulated Other Comprehensive Income (loss) on Derivatives	
September 30	**2023**	**2022**
Interest rate contracts	$ 12,873	$ (53,055)

Counterparty Credit Risk

The Association is exposed to credit loss in the event of nonperformance by other parties to the interest rate swap agreement. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Association's credit risk will equal the fair value gain in a derivative. The Association minimizes the credit (or repayment) risk by only entering into transactions with CoBank, its funding bank and are collateralized through loan agreements. Notwithstanding collateral and netting provisions, our derivative assets and liabilities are not offset in the accompanying consolidated balance sheets.

NOTE 6 – Subsequent Events

The Association has evaluated subsequent events through November 3, 2023, which is the date the financial statements were issued or available to be issued. No additional subsequent event items met the criteria for disclosure.

Senior Officers

Michael J. Reynolds	President and Chief Executive Officer
William S. Bathel	Executive Vice President and Chief Alliance and Risk Officer
Briana S. Beebe	Executive Vice President and Chief Operating Officer
Janice P. Bitter	Executive Vice President and Chief Financial Services Officer
Thomas W. Cosgrove	Executive Vice President of Knowledge Exchange, Public Relations and Marketing
Alena C. Gfeller	Executive Vice President, General Counsel and Corporate Secretary
Andrew N. Grant	Executive Vice President and Chief Financial Officer
Roger E. Murray	Executive Vice President and Chief Marketplace Officer
Daniel Nicholson	Vice President and Chief Audit Executive
David H. Pugh	Executive Vice President and Chief Experience Officer

Board of Directors

Laurie K. Griffen, Chair	Elected	Sod	Stillwater, NY
John P. Knopf, Vice Chair	Elected	Dairy	Canandaigua, NY
Timothy Benjamin	Appointed	At Large	Naples, FL
Michael N. Brooks	Elected	Vegetable	Elmer, NJ
Barry A. Buck	Elected	Potato	Mapleton, ME
Thomas J. Colgan	Appointed	Customer	Lyme, NH
David F. Folino	Elected	Maple Syrup	Starksboro, VT
David E. Hardie	Elected	Dairy	Lansing, NY
Philip J. Jones	Elected	Ag Retail	Shelton, CT
LouAnne F. King	Elected	Dairy	Madrid, NY
Brett D. Kreher	Elected	Poultry & Eggs	Clarence, NY
Joseph W. McWatters	Appointed	At Large	Hamburg, NY
James A. Robbins II	Elected	Forestry	Searsmont, ME
Lisa P. Sellew	Elected	Nursery	Lebanon, CT
Douglas W. Shelmidine	Elected	Dairy	Adams, NY
Kyle Thygesen	Elected	Dairy	Tunbridge, VT
Peter H. Triandafillou	Appointed	Customer	Orono, ME
Amy L Walker-Bailey	Elected	Dairy	Fort Ann, NY
Terry R. Zittel	Elected	Vegetables	Eden, NY

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