2024 Quarterly Report

March 31, 2024

Quarterly Report
March 31, 2024
AgWest Farm Credit, ACA

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

The following commentary is a review of the consolidated financial condition and results of operations of AgWest Farm Credit, an Agricultural Credit Association (ACA) and its wholly-owned subsidiaries (collectively referred to as AgWest) for the three months ended March 31, 2024. These comments should be read in conjunction with the unaudited consolidated financial statements and related notes included in this report, as well as the 2023 AgWest Annual Report to Stockholders. Dollar amounts are in thousands unless otherwise stated.

Effective January 1, 2023, Farm Credit West, ACA (Farm Credit West) and its PCA and FLCA subsidiaries merged with and into Northwest Farm Credit Services, ACA (the continuing association) and its respective PCA and FLCA subsidiaries (Northwest FCS). Northwest FCS acquired 100 percent of the assets and liabilities of Farm Credit West. In connection with the merger, Northwest FCS and its PCA and FLCA subsidiaries changed their names to AgWest Farm Credit, ACA, AgWest Farm Credit, PCA and AgWest Farm Credit, FLCA, respectively.

AgWest and its predecessors' quarterly and annual reports to stockholders may be obtained free of charge on AgWest's website, www.AgWestFC.com, or upon request at AgWest Farm Credit, ACA, P.O. Box 2515, Spokane, Washington 99220-2515, by telephone at (509) 340-5300, or toll free at (800) 743-2125. Additionally, the financial condition and results of operations of CoBank, ACB (CoBank), may materially affect the risk associated with stockholder investments in AgWest. Stockholders of AgWest may obtain copies of CoBank's financial statements free of charge by accessing CoBank's website, www.cobank.com, or upon request at AgWest.

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

Forward-Looking Statements

Certain statements contained in this report that are not historical facts are 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 trend, current conditions and expected future developments. However, actual results and developments may differ materially from AgWest's expectations and predictions due to a number of risks and uncertainties that are beyond its control. These risks and uncertainties include, but are not limited to merger integration, fluctuations in the economy, the relative strengths and weaknesses in the agricultural credit sectors and the real estate market, and the actions taken by the Federal Reserve in implementing monetary policy. Readers are cautioned not to place undue reliance on these forward-looking statements. AgWest will not update any forward-looking statements to reflect events of circumstances arising after they are made.

Results of Operations

Net income for the three months ended March 31, 2024, was $186.3 million compared to $145.6 million for the same period of the prior year. The increase for the three month comparative period was primarily due to a decrease in the Provision for credit losses, partially offset by a decrease in patronage-related Noninterest income.

Net interest income was $212.5 million for the three months ended March 31, 2024, compared to $209.3 million for the same period of the prior year. The increase in Net interest income for the three month comparative period was primarily due to an increase in the rates and volume of interest earning assets, partially offset by an increase in the rates and volume of interest bearing liabilities.

The following table provides the impact in net interest income due to changes in interest rates and volume of interest earning assets and interest bearing liabilities:

Change between the three months ended March 31, 2024 and 2023	*Change in income/expense*	*Change in rate*	*Change in volume*
Interest income on total loans	$ 75,155	$ 36,795	$ 38,360
Interest income on investment securities	4,350	1,814	2,536
Total interest income	**$ 79,505**	**$ 38,609**	**$ 40,896**
Total interest expense	(76,235)	(51,923)	(24,312)
Net interest income	**$ 3,270**	**$ (13,314)**	**$ 16,584**

Net interest margin is a measure of the interest earned on assets compared to interest paid on interest bearing liabilities. Information regarding the average daily balances and average rates earned and paid are presented in the following table:

For the three months ended March 31,	*2024*	*2023*
Net interest income	$ 212,521	$ 209,251
Average balances:		
Total loans	$ 28,970,871	$ 26,662,936
Investment securities	1,765,249	1,439,570
Average interest earning assets	**$ 30,736,120**	**$ 28,102,506**
Note payable to CoBank, ACB	$ 25,273,503	$ 22,755,106
Advanced conditional payments and other interest bearing liabilities	732,725	1,018,802
Average interest bearing liabilities	**$ 26,006,228**	**$ 23,773,908**
Net interest margin	2.78%	3.02%

During the three months ended March 31, 2024 and 2023, the Provision for credit losses was $8.4 million and $55.9 million, respectively. This decrease was primarily due to the required build up of the Allowance for Credit Losses (ACL) due to the merger effective January 1, 2023. Business combination accounting required a majority of the acquired portfolio's ACL to be rebuilt through the Provision for credit losses. The ACL is comprised of the allowance for loan losses (ALL) and the reserve for unfunded commitments, which is presented on the Consolidated Balance Sheets in Other liabilities. Refer to Note 3 to the consolidated financial statements for additional discussion on the provision and allowance for credit losses.

Noninterest income for the three months ended March 31, 2024, and 2023, was $67.0 million and $77.8 million respectively, a decrease of $10.8 million. The decrease in Noninterest income for the three month comparative period was primarily due to a decrease in Patronage income and a decrease in Other noninterest income.

Noninterest expense for the three months ended March 31, 2024, and 2023, was $84.0 million and $85.3 million, respectively, a decrease of $1.3 million. The decrease in Noninterest expense for the three month comparative period was primarily due to a decrease in Insurance fund premiums, partially offset by an increase in Information technology services and an increase in Other noninterest expenses.

Financial Condition

Loan Portfolio

Loans by type are presented in the following table:

	March 31, 2024	*December 31, 2023*	*Change*
Production agriculture:			
Real estate mortgage	$ 13,896,256	$ 13,999,394	$ (103,138)
Production and intermediate-term	7,177,136	7,468,450	(291,314)
Agribusiness:			
Processing and marketing	3,892,733	2,945,220	947,513
Farm related business	953,461	846,418	107,043
Loans to cooperatives	911,993	1,786,597	(874,604)
Rural infrastructure:			
Energy	690,292	800,952	(110,660)
Communications	648,963	434,873	214,090
Water and waste disposal	320,203	334,795	(14,592)
Rural residential real estate	223,447	230,837	(7,390)
Financing leases	206,595	217,091	(10,496)
Other	123,860	123,918	(58)
Total	**$ 29,044,939**	**$ 29,188,545**	**$ (143,606)**

The following table shows the primary agricultural commodities produced by AgWest members 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. Further diversification exists within the identified commodities as most member operations produce more than one commodity.

	March 31, 2024	*December 31, 2023*
Dairy	11.7%	12.7%
Tree Nuts	11.7%	11.9%
Agricultural Processing	8.6%	8.5%
Cattle and Livestock	8.2%	8.2%
Tree Fruit	7.7%	7.6%
Grains	6.8%	7.1%
Wine/Vineyard	6.5%	6.6%
Forest Products	6.1%	5.9%
Agricultural Services	5.6%	5.3%
Other concentrations in aggregate	27.1%	26.2%
Total	**100.0%**	**100.0%**

Agricultural Processing includes the processing and preparation of agricultural products to be suitable for the market and consumption. Agricultural Services includes equipment and input supply providers, ensuring the health and productivity of crops and livestock, and facilitation of the efficient production and distribution of food and other agricultural products.

For additional information on the industries served by AgWest, visit Industry Insights in the Education and Resources section of www.AgWestFC.com.

Nonperforming assets consist of nonaccrual loans, accrual loans 90 days or more past due and other property owned. A summary of nonperforming assets is presented in the following table:

		March 31, 2024		*December 31, 2023*
Nonperforming assets:				
Nonaccrual Loans	$	144,449	$	139,347
Accrual loans 90 days or more past due		116,779		5,644
Other property owned, net		11,990		12,124
Total nonperforming assets	**$**	**273,218**	**$**	**157,115**

Total nonperforming assets at March 31, 2024, increased by $116.1 million compared to December 31, 2023. Nonaccrual loans increased by $5.1 million and consist primarily of table grapes, walnuts, almonds and timber. Accrual loans 90 days or more past due increased by $111.1 million from December 31, 2023. These past due loans were believed to be fully collectible and were actively managed. The status of these loans will continue to be assessed until they are paid off, brought current, or a restructuring action has been finalized.

The ACL at March 31, 2024, was $180.5 million compared to $172.0 million at December 31, 2023. The increase as compared to year-end is primarily due to, among other variables, a decline in credit quality during the current year. Net recoveries for the three months ended March 31, 2024 and 2023 were less than $0.1 million. For additional information refer to Note 1 and Note 3 to the consolidated financial statements.

At March 31, 2024, Patronage receivable decreased by $150.7 million compared to December 31, 2023, as a result of the receipt of prior year patronage, partially offset by accruals recorded related to the estimate of Patronage receivable for 2024.

At March 31, 2024, Patronage payable decreased by $281.5 million compared to December 31, 2023, as a result of the disbursement of prior year patronage, partially offset by by accruals recorded related to the estimate of Patronage payable for 2024.

Liquidity, Investment Securities and Funding Source

The primary source of AgWest liquidity and funding is a direct loan from CoBank that is reported as a Note payable to CoBank, ACB in the Consolidated Balance Sheets. The funding arrangement is governed by the General Financing Agreement. AgWest is currently in compliance with this agreement, including repayment, pursuant to the terms and conditions of each debt obligation to CoBank and does not foresee issues with obtaining funding or maintaining liquidity and sensitivity requirements. At March 31, 2024, AgWest's Note payable to CoBank, ACB was $25.5 billion which is net of $285.5 million in remaining unamortized discounts related to the merger. For additional information, refer to Note 1 to the consolidated financial statements.

AgWest has two secondary sources of liquidity and funding, with the first being a liquidity investments portfolio managed by AgWest. The liquidity investments portfolio holds investment securities primarily to maintain a liquidity reserve and to assist with interest rate risk management. In accordance with Board-approved policies, AgWest purchases high credit quality investment securities to ensure the investment portfolio is readily marketable and available to serve as a source of liquidity in the event of disruption to AgWest's normal funding sources. Additional investment securities information is in Note 1 and Note 2 to the consolidated financial statements. AgWest's other secondary source of liquidity and funding is through an uncommitted federal funds line of credit with Wells Fargo Bank, N.A. The amount available through this line is $125.0 million and is intended to provide liquidity for disaster recovery or other emergency situations. At March 31, 2024, no balance was outstanding on this line of credit.

Certification

The undersigned certify that they have reviewed this report and it has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate and complete to the best of their knowledge and belief. There were no material changes in the internal control over financial reporting during the three months ended March 31, 2024.

Mark D. Littlefield	**Tom Nakano**	**Douglas C. Filipponi**
President and CEO	Chief Financial Officer	Chair of the Board
May 10, 2024	May 10, 2024	May 10, 2024

AgWest Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands) (unaudited)

	March 31, 2024	December 31, 2023
ASSETS		
Cash	$ 18,772	$ 110,770
Investment securities	1,790,882	1,776,547
Loans	29,044,939	29,188,545
Less: allowance for loan losses	154,500	148,000
Net loans	28,890,439	29,040,545
Accrued interest receivable	341,737	370,121
Investment in CoBank, ACB	815,176	808,983
Patronage receivable	54,692	205,421
Investment in Farm Credit System entities	37,260	37,364
Premises and equipment, net	99,370	100,370
Other assets	206,064	222,263
Total assets	$ 32,254,392	$ 32,672,384
LIABILITIES		
Note payable to CoBank, ACB	$ 25,463,999	$ 25,573,836
Advance conditional payments and other interest bearing liabilities	706,315	719,478
Accrued interest payable	171,723	162,751
Patronage payable	105,442	386,900
Other liabilities	121,080	208,494
Total liabilities	26,568,559	27,051,459
MEMBERS' EQUITY		
Capital stock and participation certificates	18,399	18,396
Less: capital stock and participation certificates receivable	(13,796)	(13,716)
Additional paid-in-capital	2,149,282	2,149,282
Accumulated other comprehensive loss	(39,846)	(23,946)
Unallocated retained earnings	3,571,794	3,490,909
Total members' equity	5,685,833	5,620,925
Total liabilities and members' equity	$ 32,254,392	$ 32,672,384

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

AgWest Farm Credit, ACA

Consolidated Statements of Income and Comprehensive Income

(dollars in thousands) (unaudited)

	For the three months ended March 31, 2024	2023
NET INTEREST INCOME		
Interest income	$ 530,116	$ 450,611
Interest expense	317,595	241,360
Net interest income	212,521	209,251
Provision for credit losses	8,425	55,852
Net interest income after provision for credit losses	204,096	153,399
NONINTEREST INCOME		
Patronage	51,254	60,543
Financially related services	5,976	6,518
Loan and other fees	6,017	5,297
Other noninterest income	3,731	5,469
Total noninterest income	66,978	77,827
NONINTEREST EXPENSE		
Salaries and employee benefits	45,368	45,271
Information technology services	12,374	11,312
Insurance fund premiums	5,800	9,293
Occupancy and equipment	4,137	4,011
Other noninterest expenses	16,299	15,419
Total noninterest expense	83,978	85,306
Income before income taxes	187,096	145,920
Provision for income taxes	815	286
Net income	$ 186,281	$ 145,634
OTHER COMPREHENSIVE INCOME		
Net pension adjustment	$ (72)	$ (1,489)
Net change in unrealized gains (losses) on investment securities	(15,828)	17,777
Other comprehensive income (loss)	(15,900)	16,288
Total Comprehensive income	$ 170,381	$ 161,922

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands) (unaudited)

	Capital stock and participation certificates and receivable	Unallocated retained earnings	Additional paid-in-capital	Accumulated other comprehensive income (loss)	Total members' equity
Balance at December 31, 2022	$ —	$ 3,158,522	$ —	$ (37,862)	$ 3,120,660
Cumulative change in accounting principle due to the adoption of CECL	—	11,500	—	—	11,500
Business combination adjustments due to merger	4,863	—	2,149,282	—	2,154,145
Comprehensive income	—	145,634	—	16,288	161,922
Capital stock and participation certificates issued	328	—	—	—	328
Capital stock and participation certificates retired	(452)	—	—	—	(452)
Less: capital stock and participation certificates receivable	73	—	—	—	73
Patronage	—	(96,650)	—	—	(96,650)
Balance at March 31, 2023	**$ 4,812**	**$ 3,219,006**	**$ 2,149,282**	**$ (21,574)**	**$ 5,351,526**
Balance at December 31, 2023	$ 4,680	$ 3,490,909	$ 2,149,282	$ (23,946)	$ 5,620,925
Comprehensive income	—	186,281	—	(15,900)	170,381
Capital stock and participation certificates issued	415	—	—	—	415
Capital stock and participation certificates retired	(412)	—	—	—	(412)
Less: capital stock and participation certificates receivable	(80)	—	—	—	(80)
Patronage	—	(105,396)	—	—	(105,396)
Balance at March 31, 2024	**$ 4,603**	**$ 3,571,794**	**$ 2,149,282**	**$ (39,846)**	**$ 5,685,833**

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

Notes to Consolidated Financial Statements (unaudited)

NOTE 1 – Organization and Significant Accounting Policies

Organization

A description of the organization and operations of AgWest Farm Credit, ACA (AgWest), the significant accounting policies followed, and the financial condition and results of operations for the year ended December 31, 2023, are contained in the 2023 AgWest Annual Report to Stockholders. These unaudited results for the three months ended March 31, 2024 should be read in conjunction with the 2023 AgWest Annual Report to Stockholders.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the financial services industry for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements.

In the opinion of management, the unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for the fair statement of results for the interim period. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The Consolidated Statements of Income and Comprehensive Income for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2024. Descriptions of the significant accounting policies are included in the 2023 AgWest Annual Report to Stockholders and remain unchanged unless otherwise noted in this report. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the financial services industry.

Effective January 1, 2023, Farm Credit West, ACA (Farm Credit West) and its PCA and FLCA subsidiaries merged with and into Northwest Farm Credit Services, ACA (the continuing association) and its respective PCA and FLCA subsidiaries (Northwest FCS). Northwest FCS acquired 100 percent of the assets and liabilities of Farm Credit West. In connection with the merger, Northwest FCS and its PCA and FLCA subsidiaries changed their names to AgWest Farm Credit, ACA, AgWest Farm Credit, PCA and AgWest Farm Credit, FLCA, respectively AgWest.

The merger was accounted for as a business combination using the acquisition method of accounting. Pursuant to these rules, AgWest acquired the assets and assumed the liabilities of Farm Credit West at their acquisition-date fair value.

Business combination adjustments to Farm Credit West's assets included a $630.1 million net business combination discount to gross loans. Loans acquired in a business combination that have experienced more-than-insignificant deterioration in credit quality since origination are considered purchased with credit deterioration (PCD). At the acquisition date, an estimate of expected credit losses was made for PCD loans of $18.6 million. This initial allowance for credit losses (ACL) is allocated to individual PCD loans and added to the purchase price or acquisition date fair values to establish the initial amortized cost basis of the PCD loans. As the initial ACL is added to the purchase price, there is no provision for credit losses recognized upon acquisition of a PCD loan. For acquired loans not deemed PCD at acquisition, the differences between the initial fair value and the unpaid principal balance are recognized as interest income over the lives of the related loans. Also included in the business combination adjustments was a net discount to investment securities of $77.6 million to reflect fair value. This difference is being accreted into interest income over the remaining life of each securities' contractual maturity. Fair value adjustments to Farm Credit West's liabilities included a $403.2 million net business combination discount to Note payable to CoBank, ACB to reflect changes in interest rates and other market conditions since the time the instruments were issued. These differences are being amortized into interest expense over the remaining lives of the debt instruments.

Principles of Consolidation

The consolidated financial statements present the consolidated financial results of AgWest Farm Credit, ACA and its subsidiaries AgWest Farm Credit, FLCA and AgWest Farm Credit, PCA. All intercompany transactions and balances have been eliminated in consolidation.

Change in Accounting Policy

Amounts in prior years have been retroactively applied due to a change in accounting policy for certain legacy pension plans. The change in accounting policy is to a preferred methodology in which the actuarial gain/loss is recognized each year as a component of Salaries and employee benefits expense as compared to the previous method which deferred the actuarial gains and losses through Accumulated other comprehensive loss. The change in accounting policy required retrospective accounting under GAAP. Net income and members' equity for each period presented reflect this change.

Recently Issued or Adopted Accounting Pronouncements

In December 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-09 - Income Taxes: Improvements to Income Tax Disclosures. The amendments in this standard require more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income tax paid information. The amendments in this standard require qualitative disclosure about specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate. The amendments are effective for annual periods beginning after December 15, 2025. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on AgWest's financial condition, results of operations or cash flows.

AgWest adopted the FASB guidance entitled Measurement of Credit Losses on Financial Instruments and other subsequently issued accounting standards related to credit losses on January 1, 2023. This guidance replaced the incurred loss impairment methodology with a single allowance framework for all financial assets carried at amortized cost and certain off-balance sheet credit exposures. This guidance requires management to consider in its estimate of the ACL relevant historical events, current conditions and reasonable and supportable forecasts that affect the collectability of the assets. Prior to the adoption, the ACL represented management's estimate of the probable credit losses inherent in its loan portfolio and certain unfunded commitments.

NOTE 2 – Investment Securities

Investment balances are carried at fair value. See Note 1 to the consolidated financial statements for information regarding investments acquired through merger.

The following is a summary of investments held and classified as available-for-sale:

March 31, 2024	*Amortized cost*	*Gross unrealized gains*	*Gross unrealized losses*	*Fair value*
U.S. Treasury debt securities	$ 1,828,811	$ 579	$ (38,508)	$ 1,790,882
Total	**$ 1,828,811**	**$ 579**	**$ (38,508)**	**$ 1,790,882**

December 31, 2023	*Amortized cost*	*Gross unrealized gains*	*Gross unrealized losses*	*Fair value*
U.S. Treasury debt securities	$ 1,798,649	$ 4,872	$ (26,974)	$ 1,776,547
Total	**$ 1,798,649**	**$ 4,872**	**$ (26,974)**	**$ 1,776,547**

A summary of amortized cost, fair value and weighted average yield of investment securities by contractual maturity at March 31, 2024 follows:

	Contractual Maturity			
March 31, 2024	*In one year or less*	*One to five years*	*Five to ten years*	*Total*
U.S. Treasury debt securities				
Amortized cost	$ 417,123	$ 1,063,660	$ 348,028	**$ 1,828,811**
Fair value	$ 413,282	$ 1,034,279	$ 343,321	**$ 1,790,882**
Weighted average yield	3.52%	2.60%	3.80%	**3.03%**

The following table shows gross unrealized losses and fair value, aggregated by the length of time the securities have been in a continuous unrealized loss position. The length of continuous loss position is based on the date the unrealized loss was first identified.

	Less than 12 months		Greater than 12 months	
March 31, 2024	*Fair value*	*Unrealized losses*	*Fair Value*	*Unrealized losses*
U.S. Treasury debt securities	$ 1,185,500	$ (14,413)	$ 430,983	$ (24,095)
Total	**$ 1,185,500**	**$ (14,413)**	**$ 430,983**	**$ (24,095)**

As of March 31, 2024, AgWest expects to collect all principal and interest on its investment securities. AgWest does not intend to sell the securities in significant unrealized loss positions nor is it likely that AgWest will be required to sell such securities for regulatory, liquidity or other purposes.

NOTE 3 – Loans and Allowance for Credit Losses

Loan balances are generally carried at their principal amount outstanding, adjusted for net business combination discounts, deferred loan fees net of costs and charge-offs. As of March 31, 2024, the remaining net business combination discounts were $487.2 million. See Note 1 to the consolidated financial statements for information regarding loans acquired through merger.

A summary of loans follows:

	March 31, 2024	*December 31, 2023*
Real estate mortgage	$ 13,896,256	$ 13,999,394
Production and intermediate-term	7,177,136	7,468,450
Agribusiness	5,758,187	5,578,235
Rural infrastructure	1,659,458	1,570,620
Rural residential real estate	223,447	230,837
Financing leases	206,595	217,091
Other	123,860	123,918
Total loans	**$ 29,044,939**	**$ 29,188,545**

AgWest may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following tables present information regarding participations purchased and sold.

Participations purchased volume in the tables excludes syndications:

	Farm Credit institutions		*Non- Farm Credit institutions*		*Total*	
March 31, 2024	*Participations purchased*	*Participations sold*	*Participations purchased*	*Participations sold*	*Participations purchased*	*Participations sold*
Real estate mortgage	$ 795,915	$ 2,622,098	$ —	$ —	$ 795,915	$ 2,622,098
Production and intermediate-term	1,229,448	4,261,676	1	—	1,229,449	4,261,676
Agribusiness	2,153,589	1,992,224	2,261	—	2,155,850	1,992,224
Rural infrastructure	1,659,458	—	—	—	1,659,458	—
Financing leases	55,673	18,795	—	—	55,673	18,795
Other	90,107	—	32,134	—	122,241	—
Total	**$ 5,984,190**	**$ 8,894,793**	**$ 34,396**	**$ —**	**$ 6,018,586**	**$ 8,894,793**

	Farm Credit institutions		*Non- Farm Credit institutions*		*Total*	
December 31, 2023	*Participations purchased*	*Participations sold*	*Participations purchased*	*Participations sold*	*Participations purchased*	*Participations sold*
Real estate mortgage	$ 817,834	$ 2,667,028	$ —	$ —	$ 817,834	$ 2,667,028
Production and intermediate-term	1,383,222	4,370,740	—	—	1,383,222	4,370,740
Agribusiness	2,096,109	1,901,840	2,285	—	2,098,394	1,901,840
Rural infrastructure	1,570,620	—	—	—	1,570,620	—
Financing leases	57,659	20,571	—	—	57,659	20,571
Other	90,053	—	32,134	—	122,187	—
Total	**$ 6,015,497**	**$ 8,960,179**	**$ 34,419**	**$ —**	**$ 6,049,916**	**$ 8,960,179**

Credit Quality

Credit risk arises from the potential inability of an obligor to meet its payment obligation and exists in AgWest's outstanding loans, letters of credit and unfunded loan commitments. AgWest manages credit risk associated with lending activities through an analysis of the credit risk profile of an individual borrower using its own set of underwriting standards and lending policies, approved by its board of directors, which provides direction to its lending staff.

The credit risk management process begins with an analysis of the borrower's credit history and, among other factors, includes the following:

- Character – borrower integrity, credit history and management capabilities,
- Capital – ability of the operation to survive unanticipated risks and support growth,
- Capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income,
- Collateral – lender protection in the event of default and also to serve as a secondary source of loan repayment and,
- Conditions – intended use of the loan funds, terms and restrictions.

Differential analysis is applied to various loan requests based on the overall risk of the request in relation to the association's risk-bearing capacity.

AgWest uses a two-dimensional loan risk rating model based on internally generated combined Farm Credit System risk rating guidance that incorporates a 14-point probability of default rating scale to identify and track the probability of borrower default in the next 12 months and a separate scale addressing loss given default, defined as the economic loss the association would expect to have in a default event. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower or the loan is classified as nonaccrual. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses and risks in a particular relationship. AgWest generally reviews the probability of default category on an annual basis or when a credit action is taken.

AgWest classifies loans according to the FCA Uniform Loan Classification System (UCS). Each of the probability of default categories carries a distinct percentage of default probability. The probability of default rate between one and nine of the acceptable categories is very narrow and would reflect almost no default to a minimal default percentage. The probability of default rate grows more rapidly as a loan moves from acceptable to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain. The following are definitions of the five UCS classifications:

- 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.
- Loss – assets are considered uncollectible.

The following tables show loans classified under the UCS as a percentage of total loans by loan type:

March 31, 2024	*Acceptable*	*OAEM*	*Substandard/ doubtful*	*Total*
Real estate mortgage	91.7%	4.6%	3.7%	**100.0%**
Production and intermediate-term	88.5%	6.3%	5.2%	**100.0%**
Agribusiness	93.8%	4.0%	2.2%	**100.0%**
Rural infrastructure	96.5%	2.7%	0.8%	**100.0%**
Rural residential real estate	97.3%	0.7%	2.0%	**100.0%**
Financing leases	86.9%	7.4%	5.7%	**100.0%**
Other	100.0%	0.0%	0.0%	**100.0%**
Total	**91.6%**	**4.8%**	**3.6%**	**100.0%**

December 31, 2023	*Acceptable*	*OAEM*	*Substandard/ doubtful*	*Total*
Real estate mortgage	92.1%	4.7%	3.2%	**100.0%**
Production and intermediate-term	89.6%	5.4%	5.0%	**100.0%**
Agribusiness	94.2%	3.2%	2.6%	**100.0%**
Rural infrastructure	96.0%	4.0%	0.0%	**100.0%**
Rural residential real estate	97.5%	0.7%	1.8%	**100.0%**
Financing leases	86.7%	7.5%	5.8%	**100.0%**
Other	100.0%	0.0%	0.0%	**100.0%**
Total	**92.1%**	**4.5%**	**3.4%**	**100.0%**

Nonperforming assets, consist of nonaccrual loans, accruing loans 90 days or more past due, and other property owned and are presented in the following table:

	March 31, 2024	*December 31, 2023*
Nonaccrual loans:		
Real estate mortgage	$ 68,695	$ 64,097
Production and intermediate-term	72,923	73,611
Agribusiness	1,510	319
Rural residential real estate	1,295	1,294
Financing leases	26	26
Total nonaccrual loans	**$ 144,449**	**$ 139,347**
Accrual loans 90 days or more past due:		
Real estate mortgage	$ 83,587	$ 833
Production and intermediate-term	27,474	3,648
Agribusiness	5,596	1,163
Rural residential real estate	122	—
Total accrual loans 90 days or more past due:	**$ 116,779**	**$ 5,644**
Total nonperforming loans	**$ 261,228**	**$ 144,991**
Other property owned, net	11,990	12,124
Total nonperforming assets	**$ 273,218**	**$ 157,115**
Nonaccrual loans as a percentage of total loans	**0.5 %**	**0.5 %**
Nonperforming assets as a percentage of total loans and other property owned	**0.9 %**	**0.5 %**
Nonperforming assets as a percentage of members' equity	**4.8 %**	**2.8 %**

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:

March 31, 2024	*Amortized cost with allowance*	*Amortized cost without allowance*	*Total amortized cost*	*Interest income recognized*
Nonaccrual Loans:				
Real estate mortgage	$ 233	$ 68,462	$ 68,695	$ 820
Production and intermediate-term	66,340	6,583	72,923	209
Agribusiness	205	1,305	1,510	86
Rural residential real estate	—	1,295	1,295	18
Financing leases	26	—	26	—
Total nonaccrual loans	**$ 66,804**	**$ 77,645**	**$ 144,449**	**$ 1,133**

December 31, 2023	*Amortized cost with allowance*	*Amortized cost without allowance*	*Total amortized cost*	*Interest income recognized*
Nonaccrual Loans:				
Real estate mortgage	$ 229	$ 63,868	$ 64,097	$ 16,192
Production and intermediate-term	68,081	5,530	73,611	8,327
Agribusiness	205	114	319	2,516
Rural residential real estate	—	1,294	1,294	87
Financing leases	26	—	26	—
Total nonaccrual loans	**$ 68,541**	**$ 70,806**	**$ 139,347**	**$ 27,122**

The following table provides an aging analysis of past due loans at amortized cost by portfolio segment:

March 31, 2024	*Current loans*	*30-89 days past due*	*90+ days past due*	*Total past due*	*Total*	*Recorded investment 90+ days and accruing interest*
Real estate mortgage	$ 13,721,255	$ 51,757	$ 123,244	$ 175,001	$ 13,896,256	$ 83,587
Production and intermediate-term	7,014,221	100,765	62,150	162,915	7,177,136	27,474
Agribusiness	5,741,291	9,910	6,986	16,896	5,758,187	5,596
Rural infrastructure	1,659,458	—	—	—	1,659,458	—
Rural residential real estate	221,496	1,493	458	1,951	223,447	122
Financing leases	206,151	418	26	444	206,595	—
Other	123,860	—	—	—	123,860	—
Total	**$ 28,687,732**	**$ 164,343**	**$ 192,864**	**$ 357,207**	**$ 29,044,939**	**$ 116,779**

December 31, 2023	*Current loans*	*30-89 days past due*	*90+ days past due*	*Total past due*	*Total*	*Recorded investment 90+ days and accruing interest*
Real estate mortgage	$ 13,930,236	$ 45,270	$ 23,888	$ 69,158	$ 13,999,394	$ 833
Production and intermediate-term	7,364,705	69,004	34,741	103,745	7,468,450	3,648
Agribusiness	5,564,058	12,695	1,482	14,177	5,578,235	1,163
Rural infrastructure	1,570,620	—	—	—	1,570,620	—
Rural residential real estate	229,492	1,015	330	1,345	230,837	—
Financing leases	217,013	—	78	78	217,091	—
Other	123,918	—	—	—	123,918	—
Total	**$ 29,000,042**	**$ 127,984**	**$ 60,519**	**$ 188,503**	**$ 29,188,545**	**$ 5,644**

Loan Modifications to Borrowers Experiencing Financial Difficulty

The following table shows the amortized cost at the end of the reporting period for loan modifications granted to borrowers experiencing financial difficulty, disaggregated by loan type and type of modification granted:

For the three months ended March 31, 2024	*Interest rate reduction*	*Term extension*	*Payment deferral*	*Term extension and payment deferral*	*Total*	*Modification as a percentage of loan class*
Real estate mortgage	$ 2,043	$ —	$ 2,371	$ —	$ 4,414	0.0%
Production and intermediate-term	—	7,205	368	26,882	34,455	0.5%
Agribusiness	—	—	—	22,473	22,473	0.4%
Total	**$ 2,043**	**$ 7,205**	**$ 2,739**	**$ 49,355**	**$ 61,342**	**0.2%**

For the three Months Ended March 31, 2023	*Interest rate reduction*	*Term extension*	*Payment deferral*	*Term extension and payment deferral*	*Total*	*Modification as a percentage of loan class*
Real estate mortgage	$ —	$ 3,220	$ 35,289	$ —	$ 38,509	0.3%
Production and intermediate-term	—	11,250	2,718	538	14,506	0.2%
Total	**$ —**	**$ 14,470**	**$ 38,007**	**$ 538**	**$ 53,015**	**0.2%**

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty as of March 31, 2024 and 2023, were $0.8 million and $0.9 million, respectively.

The following tables describe the financial effect of the modifications made to borrowers experiencing financial difficulty during the respective reporting periods:

For the three months ended March 31, 2024	*Weighted average interest rate pre-modification*	*Weighted average interest rate post-modification*	*Weighted average term extensions (months)*	*Weighted average payments deferred (months)*
Real estate mortgage	3.40 %	2.80 %	—	12
Production and intermediate-term	— %	— %	11	10
Agribusiness	— %	— %	10	10

For the three Months Ended March 31, 2023	*Weighted average interest rate pre-modification*	*Weighted average interest rate post-modification*	*Weighted average term extensions (months)*	*Weighted average payments deferred (months)*
Real estate mortgage	— %	— %	11	14
Production and intermediate-term	— %	— %	12	17

The following table presents the amortized cost of loans to borrowers experiencing financial difficulty that have defaulted during the three months ended March 31, 2024, and received a modification in the twelve months before default:

	Term extension	*Payment deferral*	*Interest rate reduction and term extension*
Real estate mortgage	$ —	$ 182	$ —
Production and intermediate-term	11,772	—	7,763
Total	**$ 11,772**	**$ 182**	**$ 7,763**

The following table presents an aging analysis of loans to borrowers experiencing financial difficulty that were modified during the twelve months prior to March 31, 2024:

	Payment status of loans modified in the past 12 months		
	Current loans	*30-89 days past due*	*90+ days past due*
Real estate mortgage	$ 20,030	$ 1,370	$ 182
Production and intermediate-term	32,546	59,143	19,535
Agribusiness	24,522	—	—
Total	**$ 77,098**	**$ 60,513**	**$ 19,717**

The following table presents an aging analysis of loans to borrowers experiencing financial difficulty that were modified on or after January 1, 2023, through March 31, 2023:

	Payment status of loans modified in the past 3 months		
	Current loans	*30-89 days past due*	*90+ days past due*
Real estate mortgage	$ 38,509	$ —	$ —
Production and intermediate-term	14,506	—	—
Total	**$ 53,015**	**$ —**	**$ —**

Additional commitments to lend to borrowers experiencing financial difficulty whose loans have been modified were $23.0 million and $3.9 million at March 31, 2024 and 2023.

Allowance for Credit Losses

The credit risk rating methodology is a key component of AgWest's ACL evaluation, and is generally incorporated into its loan underwriting standards and internal lending limits. In addition, borrower and commodity concentration lending and leasing limits have been established by AgWest to manage credit exposure. The regulatory limit to a single borrower or lessee is 15 percent of AgWest's lending and leasing limit base, but the board of directors have established more restrictive lending limits. The ACL is made up of the Allowance for loan losses (ALL) on the Consolidated Balance Sheets and the reserve for unfunded commitments, reported in Other liabilities. The provision for credit losses or credit loss reversal is related to both loans and the reserve for unfunded commitments reported in the Consolidated Statements of Income and Comprehensive Income.

Effective January 1, 2023, AgWest adopted the current expected credit losses (CECL) accounting guidance which required the ACL for loans categorized as PCD to be established though an increase in the acquired loan balances as opposed to an increase to the provision for credit losses. Included within the 2023 provision for credit losses is $42.3 million that reflect the impact of the non-PCD loan portfolio acquired through the merger with Farm Credit West at January 1, 2023. For more information regarding PCD loans, refer to Note 1 to the consolidated financial statements.

A summary of changes in the allowance for credit losses by portfolio segment are as follows:

	Real estate mortgage	*Production and intermediate-term*	*Agribusiness*	*Rural infrastructure*	*Rural residential real estate*	*Financing leases*	*Other*	*Total*
Allowance for loan losses:								
Balance at December 31, 2023	$ 58,880	$ 49,591	$ 30,017	$ 4,917	$ 891	$ 3,370	$ 334	$ 148,000
Charge-offs	(3)	(2)	(1)	—	—	—	—	(6)
Recoveries	20	61	—	—	—	—	—	81
Provision for loan losses (loan loss reversal)	3,502	1,453	185	2,511	(575)	(891)	240	6,425
Balance at March 31, 2024	**$ 62,399**	**$ 51,103**	**$ 30,201**	**$ 7,428**	**$ 316**	**$ 2,479**	**$ 574**	**$ 154,500**
Reserve for unfunded commitments:								
Balance at December 31, 2023	$ 2,676	$ 12,066	$ 8,323	$ 918	$ —	$ —	$ 17	$ 24,000
Provision (reversal) for unfunded lending commitments	601	1,607	(258)	(4)	—	—	54	2,000
Balance at March 31, 2024	**$ 3,277**	**$ 13,673**	**$ 8,065**	**$ 914**	**$ —**	**$ —**	**$ 71**	**$ 26,000**
Total allowance for credit losses at March 31, 2024	**$ 65,676**	**$ 64,776**	**$ 38,266**	**$ 8,342**	**$ 316**	**$ 2,479**	**$ 645**	**$ 180,500**

	Real estate mortgage	Production and intermediate-term	Agribusiness	Rural infrastructure	Rural residential real estate	Financing leases	Other	Total
Allowance for loan losses:								
Balance at December 31, 2022	$ 19,219	$ 25,676	$ 17,337	$ 2,841	$ 884	$ 1,406	$ 137	$ 67,500
Impact of CECL Adoption	17,336	(9,891)	(7,417)	(567)	267	(1,123)	(105)	(1,500)
Balance at January 1, 2023	36,555	15,785	9,920	2,274	1,151	283	32	66,000
Initial allowance for credit losses on PCD loans	3,723	10,311	4,544	—	—	—	—	18,578
Charge-offs	(2)	—	—	—	(1)	—	(1)	(4)
Recoveries	6	66	—	—	2	—	—	74
Provision for loan losses (loan loss reversal)	17,117	8,764	14,961	1,415	(67)	3,650	12	45,852
Balance at March 31, 2023	**$ 57,399**	**$ 34,926**	**$ 29,425**	**$ 3,689**	**$ 1,085**	**$ 3,933**	**$ 43**	**$ 130,500**
Reserve for unfunded commitments:								
Balance at December 31, 2022	$ 494	$ 8,094	$ 7,349	$ 909	$ 1	$ 102	$ 51	$ 17,000
Impact of CECL adoption	476	(5,369)	(4,496)	(521)	1	(102)	11	(10,000)
Balance at January 1, 2023	970	2,725	2,853	388	2	—	62	7,000
Provision (reversal) for unfunded lending commitments	2,068	4,112	3,705	107	—	—	8	10,000
Balance at March 31, 2023	**$ 3,038**	**$ 6,837**	**$ 6,558**	**$ 495**	**$ 2**	**$ —**	**$ 70**	**$ 17,000**
Total allowance for credit losses at March 31, 2023	**$ 60,437**	**$ 41,763**	**$ 35,983**	**$ 4,184**	**$ 1,087**	**$ 3,933**	**$ 113**	**$ 147,500**

NOTE 4 – Members' Equity

Capital Stock and Participation Certificates

In accordance with the Farm Credit Act and AgWest's capitalization bylaws, each borrower is required to acquire capital stock or participation certificates in AgWest as a condition of borrowing. Borrowers acquire ownership of capital stock or participation certificates at the time a loan is made. Certain AgWest borrowers make a cash investment when acquiring capital stock or participation certificates. Other borrowers or participation certificate holders maintain an interest free obligation with AgWest.

The capital stock and participation certificates are at-risk investments as described in the AgWest capitalization bylaws. AgWest retains a first lien on common stock and participation certificates owned by its borrowers. Stock is retired in accordance with AgWest bylaws and only if AgWest is in compliance with its capital adequacy requirements. Borrowers are responsible for payment of the cash investment upon demand by AgWest. Capital stock and participation certificates receivable are included in Total members' equity on the Consolidated Balance Sheets under the contra account, "Less: capital stock and participation certificates receivable".

Capital Regulations

The FCA sets minimum regulatory capital requirements for Banks and Associations. AgWest exceeded the regulatory minimums and capital conservation buffer amounts, where applicable, for all ratios as noted below. The following table sets forth the regulatory capital ratio requirements and ratios:

	March 31, 2024	*December 31, 2023*	*Regulatory minimums*	*Total regulatory minimums with buffer*
Risk-adjusted:				
Common equity tier 1 ratio	14.7%	15.2%	4.5%	7.0%
Tier 1 capital ratio	14.7%	15.2%	6.0%	8.5%
Total capital ratio	15.2%	15.7%	8.0%	10.5%
Permanent capital ratio	14.7%	15.3%	7.0%	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio[1]	15.5%	15.9%	4.0%	5.0%
UREE leverage ratio	15.5%	15.9%	1.5%	1.5%

[1]*Must include the regulatory minimum requirement of at least 1.5 percent UREE.*

See Note 8 in the 2023 AgWest Annual Report to Stockholders for additional information.

Accumulated Other Comprehensive Income (Loss)

AgWest reports Accumulated other comprehensive loss as a component of Total members' equity. The following tables present the activity in the Accumulated other comprehensive loss by component:

	Pension and other benefit plans	*Unrealized gains/ (losses) on investment securities*	*Total accumulated other comprehensive (loss) income*
Balance at December 31, 2023	$ (1,845)	$ (22,101)	$ (23,946)
Other comprehensive loss before reclassifications	(72)	(15,828)	(15,900)
Net current period other comprehensive income (loss)	**$ (72)**	**$ (15,828)**	**$ (15,900)**
Balance at March 31, 2024	**$ (1,917)**	**$ (37,929)**	**$ (39,846)**

	Pension and other benefit plans	*Unrealized gains/ (losses) on investment securities*	*Total accumulated other comprehensive (loss) income*
Balance at December 31, 2022	$ (856)	$ (37,006)	$ (37,862)
Other comprehensive income (loss) before reclassifications	(1,489)	17,777	16,288
Net current period other comprehensive income (loss)	**$ (1,489)**	**$ 17,777**	**$ 16,288**
Balance at March 31, 2023	**$ (2,345)**	**$ (19,229)**	**$ (21,574)**

NOTE 5 – Fair Value Measurements

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in 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. Fair value measurements are determined on a recurring basis or a nonrecurring basis. See Note 2 of the 2023 AgWest Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis for each of the fair value hierarchy values are summarized in the following tables:

	Fair value measurement using			
March 31, 2024	*Level 1*	*Level 2*	*Level 3*	*Total fair value*
Assets:				
Investment securities	$ —	$ 1,790,882	$ —	$ 1,790,882
Rural Business Investment Corporations (RBICs)	—	—	23,735	23,735
Total assets	**$ —**	**$ 1,790,882**	**$ 23,735**	**$ 1,814,617**
Liabilities:				
Derivative liabilities	$ —	$ 633	$ —	$ 633
Total liabilities	**$ —**	**$ 633**	**$ —**	**$ 633**

	Fair value measurement using			
December 31, 2023	*Level 1*	*Level 2*	*Level 3*	*Total fair value*
Assets:				
Investment securities	$ —	$ 1,776,547	$ —	$ 1,776,547
RBICs	—	—	21,834	21,834
Total assets	**$ —**	**$ 1,776,547**	**$ 21,834**	**$ 1,798,381**
Liabilities:				
Derivative liabilities	$ —	$ 702	$ —	$ 702
Total liabilities	**$ —**	**$ 702**	**$ —**	**$ 702**

Assets measured at fair value on a non-recurring basis for each of the fair value hierarchy values are summarized in the following table:

	Fair value measurement using			
	Level 1	*Level 2*	*Level 3*	*Total fair value*
Assets:				
Nonaccrual loans:				
March 31, 2024	$ —	$ —	$ 144,449	$ 144,449
December 31, 2023	$ —	$ —	$ 54,047	$ 54,047
Other property owned:				
March 31, 2024	$ —	$ —	$ 11,990	$ 11,990
December 31, 2023	$ —	$ —	$ 13,296	$ 13,296

Valuation Techniques

As more fully discussed in Note 2 of the 2023 AgWest 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 represents a brief summary of the valuation techniques used for AgWest's assets and liabilities.

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities would be classified as level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. This would include U.S Treasury, U.S. Agency and certain mortgage-backed-securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. The estimated fair values of investment securities also appear in Note 2 to the consolidated financial statements.

Derivative Assets and Liabilities

Exchange-traded derivatives valued using quoted prices would be classified within the fair value Level 1 hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the derivative positions are valued using internally developed models that use readily observable market parameters as their basis and are classified within the fair value Level 2 hierarchy. Such derivatives include interest rate swaps.

The models used to determine the fair value of derivative assets and liabilities use an income approach based on observable market inputs, including SOFR curves and volatility assumptions about future interest rate movements.

RBICs

The RBICs facilitate equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. These investments are not publicly traded and book value approximates their fair value. As a result, RBICs are classified within fair value Level 3 hierarchy and are included in Other assets on the Consolidated Balance Sheets.

Nonaccrual Loans

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

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 other property owned involves the use of independent 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.

NOTE 6 – Derivative Instruments and Hedging Activities

Risk Management Objectives and Strategies

AgWest maintains an overall risk management strategy that incorporates the use of derivative financial instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. See Note 15 of the 2023 AgWest Annual Report to Stockholders for additional information.

Uses of Derivatives

To achieve risk management objectives and satisfy the financing needs of its borrowers, AgWest executes derivative transactions with CoBank. Derivatives (interest rate swaps) are used to manage liquidity and the interest rate risk arising from maturity and repricing mismatches between assets and liabilities. Under interest rate swap arrangements, AgWest agrees to exchange with CoBank, at specified intervals, interest payment streams calculated on a specified notional amount, with at least one interest payment stream based on a specified floating-rate index. AgWest uses receive-fixed, pay-floating swaps and receive-floating, pay-fixed interest rate swaps with payment obligations tied to specific indices.

The notional amounts of derivatives and related activity of derivatives are shown in the following tables:

	Receive-fixed swaps	*Pay-fixed swaps*	*Total*
December 31, 2023	$ 39,000	$ —	$ 39,000
Additions	150,000	200,000	350,000
Maturities	—	—	—
March 31, 2024	**$ 189,000**	**$ 200,000**	**$ 389,000**

	Receive fixed swaps	*Pay-fixed swaps*	*Total*
December 31, 2022	$ 225,000	$ —	$ 225,000
Additions		—	—
Maturities	(24,000)	—	(24,000)
March 31, 2023	**$ 201,000**	**$ —**	**$ 201,000**

Accounting for Derivative Instruments and Hedging Activities

AgWest records derivatives as assets or liabilities at fair value on the Consolidated Balance Sheets. AgWest records changes in the fair value of a derivative in current period earnings. For fair value hedge transactions that hedge changes in the fair value of assets or liabilities, changes in the fair value of the derivative will generally be offset in the Consolidated Statements of Income and Comprehensive Income by changes in the hedged item's fair value attributable to the risk being hedged.

Fair Value Hedges

AgWest's fair value hedging activities involve entering into receive-fixed, pay floating interest rate swaps to either align its equity position within its overall risk management strategy (equity positioning) or to synthetically convert non-callable fixed-rate debt to floating-rate debt (liquidity management). AgWest includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps.

Derivatives not Designated as Hedges

For derivatives not designated as a hedging instrument, the related change in fair value is recorded in current period earnings in Interest expense in the Consolidated Statements of Income and Comprehensive Income.

The following amounts were recorded in the balance sheet related to fair value hedges:

	Carrying amount of the hedged item	
	March 31, 2024	*December 31, 2023*
Note payable to CoBank, ACB	**$ 388,244**	**$ 38,387**

	Cumulative amount of fair value hedging adjustment included in the carrying amount of the hedged item	
	March 31, 2024	*December 31, 2023*
Note payable to CoBank, ACB	**$ (756)**	**$ (613)**

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 tables:

March 31, 2024	*Fair value of derivative financial instruments* Derivative assets[1]		*Fair value of derivative financial instruments* Derivative liabilities[2]	
Derivatives designated as hedging instruments:				
Receive fixed swaps	$	—	$	631
Total derivatives designated as hedging instruments	**$**	**—**	**$**	**631**
Derivatives not designated as hedging instruments:				
Pay-fixed swaps	$	—	$	2
Total derivatives not designated as hedging instruments	**$**	**—**	**$**	**2**
Total derivatives	**$**	**—**	**$**	**633**

[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.

December 31, 2023	*Fair value of derivative financial instruments* Derivative assets[1]		*Fair value of derivative financial instruments* Derivative liabilities[2]	
Derivatives designated as hedging instruments:				
Receive fixed swaps	$	—	$	702
Total derivatives designated as hedging instruments	**$**	**—**	**$**	**702**
Derivatives not designated as hedging instruments:				
Pay-fixed swaps	$	—	$	—
Total derivatives not designated as hedging instruments	**$**	**—**	**$**	**—**
Total derivatives	**$**	**—**	**$**	**702**

[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 Income and Comprehensive Income is shown in the following tables:

For the three months ended March 31, 2024	*Effect of fair value hedge accounting on the Consolidated Statement of Income and Comprehensive Income* Interest income		*Effect of fair value hedge accounting on the Consolidated Statement of Income and Comprehensive Income* Interest expense	
Total amount of line items presented in Consolidated Statement of Income and Comprehensive Income	$	530,116	$	(317,595)
Gain (loss) on fair value hedge relationships:				
Receive fixed swaps:				
Recognized on derivatives	$	—	$	71
Recognized on hedged items		—		143
Net income recognized on fair value hedges	**$**	**—**	**$**	**214**

For the three months ended March 31, 2023	Effect of fair value hedge accounting on the Consolidated Statement of Income and Comprehensive Income	
	Interest income	Interest expense
Total amount of line items presented in Consolidated Statement of Income	$ 450,611	$ (241,360)
Gain (loss) on fair value hedge relationships:		
Receive fixed swaps:		
Recognized on derivatives	$ —	$ 1,030
Recognized on hedged items	—	(1,049)
Net expense recognized on fair value hedges	**$ —**	**$ (19)**

A summary of the impact of derivative financial instruments not designated as hedging instruments in the Consolidated Statements of Income and Comprehensive Income is shown in the following tables:

For the three months ended March 31, 2024	Amount of gain or (loss) recognized on derivatives not designated as hedging instruments on the Consolidated Statement of Income and Comprehensive Income	
	Interest income	Interest expense
Derivatives not designated as hedging instruments:		
Pay-fixed swaps	$ —	$ (2)
Total	**$ —**	**$ (2)**

For the three months ended March 31, 2023	Amount of gain or (loss) recognized on derivatives not designated as hedging instruments on the Consolidated Statement of Income and Comprehensive Income	
	Interest income	Interest expense
Derivatives not designated as hedging instruments:		
Pay-fixed swaps	$ —	$ —
Total	**$ —**	**$ —**

Counterparty Credit Risk

The use of derivatives for risk management introduces counterparty credit risk. Generally, when the fair value of a derivative contract is positive, AgWest is exposed to credit risk. AgWest has an International Swaps and Derivatives Association, Inc. agreement with CoBank, which meets the definition of a Qualifying Master Netting Agreement per FCA Regulations and requires the net settlement of covered contracts. Collateral is not exchanged between AgWest and CoBank. Notwithstanding netting provisions, derivative assets and liabilities are not offset in the accompanying Consolidated Balance Sheets.

NOTE 7 – Subsequent Events

AgWest has evaluated subsequent events through May 10, 2024, the date the financial statements were issued or available to be issued, and determined there are no other items to disclose.

Board of Directors

Douglas C. Filipponi, Chair	Creston, California
Mark Cook, Vice Chair	Willcox, Arizona
Joseph C. Airoso	Pixley, California
Nels DeBruycker	Choteau, Montana
Vicki Eggebrecht	Belgrade, Montana
Catherine Fanucchi	Bakersfield, California
Craig Gnos	El Macero, California
Duane (Skip) Gray	Albany, Oregon
Robert Hansen	Hanford, California
Blake Harlan	Woodland, California
John Helle	Dillon, Montana
Greg Hirai	Wendell, Idaho
Tom Ikeda	Arroyo Grande, California
Beth Kennar	Spokane, Washington
Bill Martin	Rufus, Oregon
Colin Mellon	Yuma, Arizona
Barry T. Powell	Sacramento, California
Nate Riggers	Nezperce, Idaho
Derek Schafer	Ritzville, Washington
Brian Talley	Arroyo Grande, California
Shawn Walters	Teton, Idaho
Andy Werkhoven	Monroe, Washington

Operating Committee

Mark Littlefield	President and Chief Executive Officer
John Barcelos	Chief Risk Officer
Daniel Clawson	Chief Lending Officer-South
Linda Hendricksen	Chief Engagement Officer
Jeff Hennig	Chief Auditor
Tom McKeirnan	General Counsel
Tom Nakano	Chief Financial Officer
Bill Perry	Chief Lending Officer-North
John Phelan	Chief Credit Officer
Denise Warkomski	Chief Business Solutions Officer