



# 2023 Quarterly Report

March 31, 2023



# Quarterly Report

## March 31, 2023

### 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, 2023. These comments should be read in conjunction with the unaudited consolidated financial statements and related notes included in this report, as well as the 2022 Northwest Farm Credit Services (Northwest FCS) Annual Report to Stockholders. Dollar amounts are in thousands unless otherwise noted.

AgWest and its predecessors' quarterly and annual reports to stockholders may be obtained free of charge on AgWest's website, [www.AgWestFC.com](http://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](http://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 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.

#### **Merger Activity**

Effective January 1, 2023, Farm Credit West, ACA and its PCA and FLCA subsidiaries (Farm Credit West) merged with and into Northwest FCS (the continuing association) and its respective PCA and FLCA subsidiaries, whereupon all shareholders of Farm Credit West became shareholders of the continuing association. Additionally, upon the effective date of the merger, the continuing association 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). AgWest is headquartered in Spokane, Washington. AgWest serves customers in Alaska, Arizona, California, Idaho, Montana, Nevada, North Dakota, Oregon and Washington.

The effects of the merger are included in AgWest's financial position, results of operations, equity, and related metrics beginning January 1, 2023. Upon the closing of the merger, assets increased by \$14.2 billion (including loans of \$12.7 billion), liabilities increased by \$12.1 billion, and members' equity increased by \$2.2 billion. These amounts include adjustments to fair value, as required by accounting standards for business combinations. For additional information, refer to Note 1 to the Consolidated Financial Statements.

#### **Results of Operations**

Net income for the three months ended March 31, 2023, was \$145.2 million compared to \$84.5 million for the same period of the prior year. The merger significantly impacted results of operations. The increase for the three month comparative period was primarily due to increases in net interest income and noninterest income, partially offset by increases in provision for credit losses and noninterest expense.

Net interest income was \$209.3 million for the three months ended March 31, 2023, compared to \$99.7 million for the same period of the prior year. The increase in net interest income was primarily due to the merger and the rising interest rate environment. As a result of the merger, net business combination discounts were recorded on the acquired loans, investments and debt. The net business combination discounts on loans and investments are accreted to interest income and partially offset by the amortization of the net business combination discount recorded on the acquired debt to interest expense. For the three months ended March 31, 2023 there was \$39.7 million accreted to interest income and \$33.3 million amortized into interest expense.

Net interest margin is a measure of the interest earning assets compared to interest paid on interest bearing liabilities. Net interest margin and related average balances follow:

<i>For the three months ended March 31,</i>	<i>2023</i>	<i>2022</i>
Net interest income	\$ 209,251	\$ 99,723
<b>Average balances:</b>		
Total loans	\$ 26,662,936	\$ 13,843,325
Investment securities	1,439,570	424,824
<b>Average interest earning assets</b>	<b>\$ 28,102,506</b>	<b>\$ 14,268,149</b>
<b>Average interest bearing liabilities</b>	<b>\$ 23,773,908</b>	<b>\$ 11,789,979</b>
 Net interest margin	 3.02%	 2.83%

Influences on net interest income from changes in effective rates on, and volume of, interest earning assets and interest bearing liabilities are presented in the following table:

<i>Change between the three months ended March 31, 2023 and 2022</i>	<i>Change in income/expense</i>	<i>Change in rate</i>	<i>Change in volume</i>
Interest income on total loans	\$ 308,983	\$ 188,123	\$ 120,860
Interest income on investment securities	10,413	8,731	1,682
<b>Total interest income</b>	<b>\$ 319,396</b>	<b>\$ 196,854</b>	<b>\$ 122,542</b>
Total interest expense	(209,868)	(177,858)	(32,010)
<b>Net interest income</b>	<b>\$ 109,528</b>	<b>\$ 18,996</b>	<b>\$ 90,532</b>

During the three months ended March 31, 2023 and 2022, there was a provision for credit losses of \$55.9 million and \$4.0 million, respectively. The increase in the provision for credit losses was due to business combination accounting which required a majority of the acquired portfolio's allowance for credit losses (ACL) to be rebuilt through the income statement. Refer to the Loan Portfolio section for additional discussion on the provision and allowance for credit losses.

Noninterest income for the three months ended March 31, 2023, was \$77.8 million compared to \$36.3 million for the same period of the prior year, an increase of \$41.5 million. The increase in noninterest income for the three month comparative period was primarily due to an increase in patronage income of \$36.3 million as a result of the merger.

Noninterest expense for the three months ended March 31, 2023, and 2022, was \$85.8 million and \$47.3 million, respectively, an increase of \$38.5 million. The increase in noninterest expense for the three month comparative period was primarily due to an increase in salaries and employee benefits of \$20.2 million. As a result of the merger, AgWest has a much larger employee base which is driving the increased salaries and employee benefit costs.

## Outlook

For additional information on the industries served by AgWest, visit Industry Insights in the Education and Resources section of [www.AgWestFC.com](http://www.AgWestFC.com).

## Financial Condition

### Loan Portfolio

AgWest adopted the Financial Accounting Standards Board guidance entitled Measurement of Credit Losses on Financial Instruments effective January 1, 2023. This guidance introduced the current expected credit losses methodology (CECL) for the measurement of credit losses on financial assets measured at amortized cost basis, replacing the previous incurred loss methodology. Under this guidance the accounting for loans acquired in a business combination is dependent on whether or not the loans have experienced more-than-insignificant deterioration in credit quality since origination. Those loans that have not had more-than-insignificant credit deterioration are considered non-purchased credit deteriorated (non-PCD) loans. These loans are recorded at fair value and an increase to the ACL is recorded with a corresponding increase to the provision for credit losses. Purchased loans that reflect a more-than-insignificant credit deterioration since origination are considered purchased with credit deterioration (PCD). Of the total \$12.7 billion loans acquired, management identified \$470.5 million as PCD loans. PCD loans are recorded at acquisition date fair value, grossed up by the required ACL. There is no provision for credit losses on the PCD loans and rather an ACL is created. For additional information, refer to Note 1 to the Consolidated Financial Statements.

Loans by type are presented in the following table:

	March 31, 2023	December 31, 2022 <sup>1</sup>	Change
Production agriculture:			
Real estate mortgage	\$ 13,761,069	\$ 7,199,901	\$ 6,561,168
Production and intermediate-term	5,900,324	3,540,674	2,359,650
Agribusiness:			
Processing and marketing	3,288,236	1,862,298	1,425,938
Loans to cooperatives	989,846	481,884	507,962
Farm related business	850,845	427,448	423,397
Rural infrastructure:			
Energy	538,032	257,560	280,472
Communications	473,218	189,224	283,994
Water and waste disposal	238,714	119,265	119,449
Rural residential real estate	262,017	284,423	(22,406)
Financing leases	243,641	64,793	178,848
Other	92,425	41,594	50,831
<b>Total</b>	<b>\$ 26,638,367</b>	<b>\$ 14,469,064</b>	<b>\$ 12,169,303</b>

<sup>1</sup>Prior to the adoption of CECL on January 1, 2023, loans were presented with accrued interest receivables.

At March 31, 2023, nonperforming assets consisted of nonaccrual loans, net of business combination discounts, and other property owned and are presented in the following table:

	March 31, 2023
Nonperforming assets:	
Nonaccrual Loans	\$ 89,681
Other property owned, net	12,384
<b>Total nonperforming assets</b>	<b>\$ 102,065</b>

At December 31, 2022, nonperforming assets consisted of nonaccrual loans, restructured accrual loans, accrual loans 90 days or more past due and other property owned and are presented in the following table:

	December 31, 2022 <sup>1</sup>	
<b>Nonperforming assets:</b>		
Nonaccrual loans	\$	46,732
Restructured accrual loans		2,043
Accrual loans 90 days or more past due		802
Other property owned, net		—
<b>Total nonperforming assets</b>	<b>\$</b>	<b>49,577</b>

<sup>1</sup>Prior to the adoption of CECL on January 1, 2023, loans were presented with accrued interest receivables.

Nonperforming assets at March 31, 2023, increased by \$52.5 million compared to December 31, 2022 as the result of the acquired nonaccrual loans and other property owned portfolio.

The ACL at March 31, 2023, was \$147.5 million compared to \$84.5 million at December 31, 2022. The increase as compared to year-end is primarily due to the required accounting treatment from an incurred loss methodology to the current expected credit loss methodology including the impact resulting from acquired loans and leases in the merger with Farm Credit West. Net recoveries for the three months ended March 31, 2023 were \$0.1 million compared to net charge-offs of less than \$0.1 million for the three months ended March 31, 2022. For additional information refer to Note 1 and Note 3 to the Consolidated Financial Statements.

At March 31, 2023, patronage receivable decreased by \$62.5 million compared to December 31, 2022, from the receipt of patronage, partially offset by amounts recorded related to the estimate of patronage receivable for 2023.

At March 31, 2023, patronage payable decreased by \$89.9 million compared to December 31, 2022, as a result of the disbursement of patronage, partially offset by accruals recorded related to the estimate of patronage payable for 2023.

#### **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 a 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, 2023, AgWest's Note payable to CoBank, ACB was \$22.8 billion which is net of \$369.9 million in discounts related to the merger. For additional information, refer to Note 1 to the Consolidated Financial Statements.

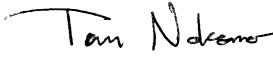
AgWest has two secondary sources of liquidity and funding, with the first being a Liquidity Investments Portfolio managed by AgWest. The Liquidity Investments Portfolio holds investment securities primarily to maintain a liquidity reserve and to assist with interest rate risk management. In accordance 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 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, 2023, 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, 2023.



**Mark D. Littlefield**  
President and CEO  
May 10, 2023



**Tom Nakano**  
Chief Financial Officer  
May 10, 2023



**Nathan Riggers**  
Chair of the Board  
May 10, 2023

# Consolidated Balance Sheets

(dollars in thousands) (unaudited)

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
<b>ASSETS</b>		
Cash	\$ 51,022	\$ 69,117
Investment securities	1,518,803	606,343
Loans	26,638,367	14,330,607
Less: allowance for loan losses	130,500	67,500
Net loans	<u>26,507,867</u>	<u>14,263,107</u>
Accrued interest receivable	263,206	140,947
Investment in CoBank, ACB	761,049	419,844
Patronage receivable	45,019	107,536
Investment in Farm Credit System entities	110,351	87,634
Premises and equipment, net	102,537	53,551
Other assets	<u>124,468</u>	<u>46,221</u>
<b>Total assets</b>	<u>\$ 29,484,322</u>	<u>\$ 15,794,300</u>
<b>LIABILITIES</b>		
Note payable to CoBank, ACB	\$ 22,789,351	\$ 11,809,550
Advance conditional payments and other interest bearing liabilities	1,032,494	517,155
Accrued interest payable	114,965	47,302
Patronage payable	96,589	186,500
Other liabilities	<u>99,397</u>	<u>113,133</u>
<b>Total liabilities</b>	<u>24,132,796</u>	<u>12,673,640</u>
<b>MEMBERS' EQUITY</b>		
Capital stock and participation certificates	18,310	13,502
Less: capital stock and participation certificates receivable (Note 4)	(13,498)	(13,502)
Additional paid-in-capital	2,149,282	—
Accumulated other comprehensive loss, net of tax	(48,517)	(65,282)
Unallocated retained earnings	<u>3,245,949</u>	<u>3,185,942</u>
<b>Total members' equity</b>	<u>5,351,526</u>	<u>3,120,660</u>
<b>Total liabilities and members' equity</b>	<u>\$ 29,484,322</u>	<u>\$ 15,794,300</u>

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

# Consolidated Statements of Income and Comprehensive Income

(dollars in thousands) (unaudited)

	<i>For the three months ended March 31,</i>	
	<u>2023</u>	<u>2022</u>
<b>NET INTEREST INCOME</b>		
Interest income	\$ 450,611	\$ 131,215
Interest expense	241,360	31,492
Net interest income	209,251	99,723
Provision for credit losses	55,852	4,030
<b>Net interest income after provision for credit losses</b>	<u>153,399</u>	<u>95,693</u>
<b>NONINTEREST INCOME</b>		
Patronage	60,543	24,262
Financially related services	6,518	5,459
Loan and other fees	5,297	3,579
Other noninterest income	5,469	3,044
<b>Total noninterest income</b>	<u>77,827</u>	<u>36,344</u>
<b>NONINTEREST EXPENSE</b>		
Salaries and employee benefits	45,748	25,592
Information technology services	11,312	7,339
Insurance fund premiums	9,293	4,084
Occupancy and equipment	4,011	2,580
Other noninterest expenses	15,419	7,693
<b>Total noninterest expense</b>	<u>85,783</u>	<u>47,288</u>
Income before income taxes	145,443	84,749
Provision for income taxes	286	271
<b>Net income</b>	<u>\$ 145,157</u>	<u>\$ 84,478</u>
<b>OTHER COMPREHENSIVE INCOME</b>		
Net pension adjustment	\$ (1,012)	\$ 378
Net change in unrealized gain (losses) on investment securities	17,777	(16,482)
Other comprehensive income, net of tax	16,765	(16,104)
<b>Total Comprehensive income</b>	<u>\$ 161,922</u>	<u>\$ 68,374</u>

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
December 31, 2021	\$ —	\$ 3,019,622	\$ —	\$ (30,191)	\$ 2,989,431
Comprehensive income	—	84,478	—	(16,104)	68,374
Capital stock and participation certificates issued	475	—	—	—	475
Capital stock and participation certificates retired	(464)	—	—	—	(464)
Less: capital stock and participation certificates receivable (Note 4)	(11)	—	—	—	(11)
Patronage	—	(42,350)	—	—	(42,350)
<b>March 31, 2022</b>	<b>\$ —</b>	<b>\$ 3,061,750</b>	<b>\$ —</b>	<b>\$ (46,295)</b>	<b>\$ 3,015,455</b>
December 31, 2022	\$ —	\$ 3,185,942	\$ —	\$ (65,282)	\$ 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	—	145,157	—	16,765	161,922
Capital stock and participation certificates issued	55	—	—	—	55
Capital stock and participation certificates retired	(106)	—	—	—	(106)
Issuance of stock in exchange for customer stock receivable	273	—	—	—	273
Release of customer stock receivable associated with retired stock	(346)	—	—	—	(346)
Less: capital stock and participation certificates receivable (Note 4)	73	—	—	—	73
Patronage	—	(96,650)	—	—	(96,650)
<b>March 31, 2023</b>	<b>\$ 4,812</b>	<b>\$ 3,245,949</b>	<b>\$ 2,149,282</b>	<b>\$ (48,517)</b>	<b>\$ 5,351,526</b>

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

## **AgWest Farm Credit, ACA**

### **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 as of and for the year ended December 31, 2022, are contained in the 2022 Northwest Farm Credit Services (Northwest FCS) Annual Report to Stockholders. These unaudited results for the three months ended March 31, 2023, should be read in conjunction with the 2022 Northwest FCS 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 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 Northwest FCS 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 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, 2023. Descriptions of the significant accounting policies are included in the 2022 Northwest FCS 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.

##### **Merger Activity**

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 merged Association, AgWest, is headquartered in Spokane, Washington. The primary reason for the merger was to strategically position the associations to best serve member needs, now and in the future. The effects of the merger are included in AgWest's results of operations, statement of condition, average balances, and related metrics beginning January 1, 2023.

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of merger, but not for previous periods. The Consolidated Balance Sheets reflect the merged balances as of March 31, 2023. The Consolidated Statements of Income and Comprehensive Income and the Consolidated Statements of Changes in Members' Equity reflect the results of AgWest after January 1, 2023, and Northwest FCS prior to that date. Information in the Notes to the Consolidated Financial Statements for 2023 reflect balances of AgWest for disclosures after January 1, 2023.

As cooperative organizations, Farm Credit associations operate for the mutual benefit of their members and other customers and not for the benefit of equity investors. As such, capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and the bylaws, the associations can issue stock only at its par value of five dollars per share, the stock is not tradable, and the stock can be retired only for the lesser of par value or book value. The shares of Farm Credit West stock were converted in the merger into shares of the continuing association, ultimately named AgWest, with identical rights and attributes. For this reason, the conversion of Farm Credit

West stock pursuant to the merger occurred at a one-for-one exchange ratio (i.e., each Farm Credit West share was converted into one share of AgWest stock with an equal par value).

Management believes that because the stock in each association is fixed in value (although subject to impairment), the AgWest stock issued pursuant to the merger provided no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, AgWest undertook a process to estimate the acquisition-date fair value of Farm Credit West assets and liabilities instead of the acquisition-date fair value of AgWest's equity interests transferred as consideration. The fair value of the assets acquired and liabilities assumed from Farm Credit West, were measured based on various estimates using assumptions that management believes are reasonable and using information available as of the merger date. Use of different estimates and judgments could yield materially different results.

The merger was accounted for as a business combination using the acquisition method of accounting as required under FASB ASC Topic 805, Business Combinations. Pursuant to these rules, AgWest acquired the assets and assumed the liabilities of Farm Credit West at their acquisition-date fair value. The fair value of the net identifiable assets acquired of \$2.2 billion was substantially equal to the fair value of the equity interest exchanged in the merger. In addition, no material amounts of intangible assets were acquired; therefore, no goodwill was recorded. A net increase of \$2.2 billion was recorded in members' equity related to the merger.

The following condensed statement of net assets acquired reflects the fair value assigned to Farm Credit West net assets as of the acquisition date. There were no subsequent changes to the initial fair value measurements since the merger.

*January 1, 2023*

<b>Assets:</b>		
Cash	\$	45,740
Investment securities		842,354
Net Loans		12,647,272
Accrued interest receivable		132,803
Investment in Farm Credit System entities		384,612
Premises and equipment, net		48,420
Other assets		147,915
<b>Total assets</b>	<b>\$</b>	<b>14,249,116</b>
<b>Liabilities:</b>		
Note payable to CoBank, ACB	\$	11,376,704
Advance conditional payments and other interest bearing liabilities		427,280
Accrued interest payable		44,824
Other liabilities		246,163
<b>Total liabilities</b>	<b>\$</b>	<b>12,094,971</b>
<b>Fair value of net assets acquired</b>	<b>\$</b>	<b>2,154,145</b>

Business combination adjustments to Farm Credit West's assets included a \$630.1 million net business combination discount to gross loans. With the adoption of CECL, 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. An ACL is estimated and \$53.7 million was recorded as a provision for credit losses for the three months ended March 31, 2023. 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 these instruments were issued. These differences are being amortized into interest expense over the remaining life 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.

### **Reclassifications**

Certain amounts in prior years' consolidated financial statements have been reclassified to conform to the current year's financial statements presentation. Within the Consolidated Statements of Income and Comprehensive Income, information technology services are presented as a separate income statement line item due to the significance of the balances. Prepayment fees collected were reclassified from interest income to other noninterest income. Debt extinguishment cost were reclassified from interest expense to other noninterest income. There are reclassifications within certain loan tables shown in Note 3 to separately disclose Financing leases which were previously presented in Other loans and reclassification of certain purchased loans within Production and intermediate-term to Other loans to better align the merged loan portfolio presentation.

### **Recently Issued or Adopted Accounting Pronouncements**

In January 2021, the Financial Accounting Standards Board (FASB) issued an update to Reference Rate Reform whereby certain derivative instruments may be modified to change the rate used for margining, discounting or contract price alignment. An entity may elect to apply the new amendments on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020. The new amendments may also be applied on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the update, up to the date that financial statements are available to be issued.

In December 2022, the FASB issued an update entitled Reference Rate Reform – Deferral of the Sunset Date of Topic 848, which extends the sunset (or expiration) date of ASC Topic 848, Reference Rate Reform, from December 31, 2022 to December 31, 2024. The amendments apply to all entities that have contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. Because some of the more commonly used LIBOR tenors will continue to be published until June 2023, the FASB concluded an extension of the ASC 848 sunset date was necessary to ensure reporting entities could continue to benefit from the relief the FASB initially provided when it issued ASC 848. AgWest has exposure to various LIBOR-indexed financial instruments that mature during 2023 and after. To the extent AgWest cannot successfully transition its LIBOR-indexed financial instruments to an alternative rate-based index, there could be ramifications including those that may arise as a result of the need to redeem or terminate such instruments. AgWest continues to evaluate the impact of this amendment.

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 current 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 allowance for credit losses (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.

The following table presents the impact to the ACL and retained earnings upon adoption of this guidance on January 1, 2023:

	December 31, 2022	<i>CECL adoption impact</i>	January 1, 2023
<b>Assets:</b>			
Allowance for loan losses	\$ 67,500	\$ (1,500)	\$ 66,000
<b>Liabilities</b>			
Reserve for unfunded commitments	\$ 17,000	\$ (10,000)	\$ 7,000
<b>Retained earnings:</b>			
Unallocated retained earnings	\$ 3,185,942	\$ 11,500	\$ 3,197,442

AgWest also adopted effective January 1, 2023, the updated FASB 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.

### Significant Accounting Policies

#### Business Combinations

AgWest accounts for acquisitions under FASB ASC Topic 805, Business Combinations, which requires the use of the acquisition method of accounting. Under the acquisition method, the acquiring entity in a business combination recognizes all identifiable assets acquired, including loans, and liabilities assumed at their acquisition date fair values.

#### Investments

As more fully described in the 2022 Northwest FCS Annual Report, AgWest may hold additional investments in accordance with other investment programs approved by the Farm Credit Administration (FCA). These programs allow AgWest to make investments that further the mission to support rural America.

Upon adoption of CECL, the guidance amended the previous other-than-temporary impairment (OTTI) model for investments available-for-sale to incorporate an ACL. Impairment may result from credit deterioration of the issuer or collateral underlying the security. In performing an assessment of whether any decline in fair value is due to a credit loss, all relevant information is considered at the individual security level. With respect to U.S. Treasuries, management considers the history of credit losses, current conditions and reasonable and supportable forecasts, which may indicate that the expectation that nonpayment of the amortized cost basis is or continues to be zero, even if the U.S. government were to technically default. Therefore, for those securities, AgWest does not maintain expected credit losses.

Available-for-sale debt securities in unrealized loss positions are evaluated for impairment related to credit losses at least quarterly. For available-for-sale debt securities, a decline in fair value due to estimated credit loss results in recording an ACL to the extent the fair value is less than the amortized cost basis. Declines in fair value which are due to changes in market interest rates are recorded through other comprehensive income (loss).

#### Loans and Allowance for Credit Losses

Long-term real estate mortgage loans may have original maturities ranging up to 40 years. Short- and intermediate-term loans for agricultural production or operating purposes generally have maturities of 10 years or less. Loans are generally carried at their principal amount outstanding adjusted for charge-offs, deferred loan fees or costs and net business combination discounts. Loan origination fees and direct loan origination costs are capitalized, and the net fee or cost is amortized over the average life of the related loan as an adjustment to yield. These deferred origination costs are periodically evaluated. Loan prepayment fees are reported in noninterest income. Interest on loans is accrued and credited to interest income based on the daily principal amount outstanding. The total balance of unamortized net business combination discounts, fees and costs, recognized as an offset to loans in the Consolidated Balance Sheets, was a net discount of \$631.8 million at March 31, 2023, compared to \$36.0 million at December 31, 2022.

### *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. 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, interest payments received in cash are generally recognized as interest income if the collectability of the loan principal is fully expected and certain other criteria are met. Otherwise, payments received on nonaccrual loans are applied against the recorded investment in the loan asset. Nonaccrual loans are returned to accrual status if all contractual principal and interest is current, the borrower is fully expected to fulfill the contractual repayments terms and after remaining current as to principal and interest for a sustained period or have a recent repayment pattern demonstrating future repayment capacity to make on-time payments. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer should first be recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

### *Accrued Interest Receivable*

AgWest elected to continue classifying accrued interest on loans and investment securities as accrued interest receivable and not as part of loans or investments on the Consolidated Balance Sheets. AgWest 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.

### *Troubled Debt Restructure*

Through December 31, 2022, a restructured loan constituted a troubled debt restructuring (TDR) if for economic or legal reasons related to the debtor's financial difficulties, AgWest granted a concession to the debtor that it would not otherwise consider. A concession was generally granted in order to minimize AgWest's economic loss and avoid foreclosure. Concessions varied by program and were borrower-specific and may have included 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. A loan restructured in a troubled debt restructuring was an impaired loan. As mentioned in the Recently Issued or Adopted Accounting Pronouncements the accounting requirement to report on TDRs was eliminated effective January 1, 2023 and restructured loans are no longer reported with impaired loans.

### *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. AgWest has properly identified those loans modified to a borrower experiencing financial difficulties for the purpose of disclosure.

### *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 AgWest to measure the expected credit losses based on fair value of the collateral at the reporting date when it 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. AgWest has considered potential future changes in collateral value, historical loss experience, and reasonable and supportable forecasts for financial assets that were secured by similar collateral.

#### *Purchased Credit Deteriorated Loans (PCD)*

Loans are recorded at their fair value at the acquisition date. Any loans that have experienced a more-than-insignificant deterioration in credit quality since origination are identified as PCD loans and AgWest is required to estimate and record an ACL for these loans. This allowance is then added to the purchase price of the PCD loans to establish the initial amortized cost basis, rather than being reported as a provision for credit losses. Any subsequent changes in expected credit losses are recorded through the income statement with a provision for credit losses. An ACL is recorded on non-PCD loans through a provision for credit losses.

#### *Allowance for Credit Losses*

Beginning January 1, 2023, the 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 and the reserve for unfunded commitments, which is presented on the Consolidated Balance Sheets in Other liabilities.

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

The methodology for the ACL represents management's estimate of credit losses over the remaining expected life of loans. Loans are evaluated on the amortized cost basis, which excludes net deferred fees and cost, applicable accrued interest and net business combination discounts. The estimate of the ACL involves a high degree of judgment; therefore, the process for determining expected credit losses may result in a range of expected credit losses. The ACL recorded on the Consolidated Balance Sheets reflects management's best estimate within the range of expected credit losses.

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

Asset-specific loans are generally collateral-dependent loans (including those loans for which foreclosure is probable) and nonaccrual loans. For an asset-specific loan, expected credit losses are measured as the difference between the amortized cost basis of the loan and the present value of expected future cash flows discounted at the loan's effective interest rate except that, for collateral-dependent loans, credit loss is measured as the difference between the amortized cost basis in the loan and the fair value of the underlying collateral. The fair value of the collateral is adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale of the collateral. Management reassesses the need for adjustments to the loan's expected credit loss measurements based on updated fair values and, where appropriate, records an adjustment. If the calculated expected credit loss is determined to be permanent, fixed or non-recoverable, the credit loss portion of the loan will be charged off against the ACL. AgWest may apply the collateral-dependent practical expedient to evaluate these loans on an individual basis for determining expected credit losses.

In estimating the second component of the ACL 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 generally include loan type, commodity or industry and credit quality rating. The allowance is determined based on a quantitative calculation of the expected life-of-loan loss percentage for each loan category by considering the exposure at default, the

probability of default, based on the migration of loans from performing to default using historical life-of-loan analysis periods for loan types, and the severity of loss such as loss given default, based on the aggregate net lifetime losses incurred per loan pool. Prepayment rate assumptions are used within the methodology.

This component of the ACL 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 various factors and involving management judgement of economic conditions and variables used.

The methodology uses multiple economic scenarios over a reasonable and supportable forecast period of two years. Subsequent to the forecast period, certain pools of loans utilize an instantaneous reversion to the long term loss rate, while other pools of loans utilize a one year reversion through the cycle observed loss rate. The long run average expected credit losses are derived from available historical credit information. AgWest uses long run average expected losses for the portfolio over the estimated remaining contractual term beyond its forecast period and the reversion period.

For certain pools of loans, the methodology utilizes economic forecasts that incorporate macroeconomic variables, including unemployment rates and personal consumption expenditures. For other pools of loans, the methodology utilizes an internal risk index with differing set of factors for each commodity.

In addition to the quantitative calculation, AgWest 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 ACL 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 ACL 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 ACL 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.

AgWest evaluates a reserve for unfunded commitments under CECL which is included in Other liabilities on the Consolidated Balance Sheets. 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 ACL methodology to the results of the usage calculation.

For additional information on loans and ACL, refer to Note 3.

**NOTE 2 – Investment Securities**

The following is a summary of investments held for maintaining a liquidity reserve and managing interest rate risk and are classified as available-for-sale:

<i>March 31, 2023</i>	<i>Amortized cost</i>	<i>Gross unrealized gains</i>	<i>Gross unrealized losses</i>	<i>Fair value</i>
U.S. Treasury debt securities	\$ 1,538,032	\$ 10,081	\$ (29,310)	\$ 1,518,803
<b>Total</b>	<b>\$ 1,538,032</b>	<b>\$ 10,081</b>	<b>\$ (29,310)</b>	<b>\$ 1,518,803</b>



<i>December 31, 2022</i>	<i>Amortized cost</i>	<i>Gross unrealized gains</i>	<i>Gross unrealized losses</i>	<i>Fair value</i>
U.S. Treasury debt securities	\$ 643,350	\$ 72	\$ (37,079)	\$ 606,343
<b>Total</b>	<b>\$ 643,350</b>	<b>\$ 72</b>	<b>\$ (37,079)</b>	<b>\$ 606,343</b>

The following table is a summary of the contractual maturity, fair value, amortized cost and weighted average yield of investments available-for-sale as of March 31, 2023:

<i>March 31, 2023</i>	<i>Contractual maturity</i>			<i>Total</i>
	<i>In one year or less</i>	<i>One to five years</i>	<i>Five to ten years</i>	
U.S. Treasury debt securities				
Amortized cost	\$ 222,409	\$ 989,543	\$ 326,080	\$ 1,538,032
Fair value	\$ 219,703	\$ 973,201	\$ 325,899	\$ 1,518,803
Weighted average yield	1.67%	2.31%	2.70%	2.31%

The following table shows investment securities by gross unrealized losses and fair value, aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position at March 31, 2023. The continuous loss position is based on the date the unrealized loss was first identified:

<i>March 31, 2023</i>	<i>Less than 12 months</i>		<i>Greater than 12 months</i>	
	<i>Fair value</i>	<i>Unrealized losses</i>	<i>Fair value</i>	<i>Unrealized losses</i>
U.S. Treasury debt securities	\$ 208,703	\$ (1,894)	\$ 405,665	\$ (27,416)
<b>Total</b>	<b>\$ 208,703</b>	<b>\$ (1,894)</b>	<b>\$ 405,665</b>	<b>\$ (27,416)</b>

As of March 31, 2023, AgWest expects to collect all principal and interest on its investment securities. AgWest does not intend to sell the securities in a significant unrealized loss positions, nor is it likely that AgWest will be required to sell such securities, for regulatory, liquidity or other purposes, before an anticipated recovery of its cost basis occurs.

### NOTE 3 – Loans and Allowance for Credit Losses

A summary of loans follows:

	<i>March 31, 2023</i>	<i>December 31, 2022</i>
Real estate mortgage	\$ 13,761,069	\$ 7,106,419
Production and intermediate-term	5,900,324	3,512,706
Agribusiness	5,128,927	2,757,504
Rural infrastructure	1,249,964	564,667
Rural residential real estate	262,017	283,484
Financing leases	243,641	64,464
Other	92,425	41,363
<b>Total loans</b>	<b>\$ 26,638,367</b>	<b>\$ 14,330,607</b>

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 exclude syndications and purchases of other interests in loans:

	<i>Farm Credit institutions</i>		<i>Non- Farm Credit institutions</i>		<i>Total</i>	
	<i>Participations purchased</i>	<i>Participations sold</i>	<i>Participations purchased</i>	<i>Participations sold</i>	<i>Participations purchased</i>	<i>Participations sold</i>
<i>March 31, 2023</i>						
Real estate mortgage	\$ 831,721	\$ 2,636,857	\$ —	\$ —	\$ 831,721	\$ 2,636,857
Production and intermediate-term	1,074,397	4,872,804	654	—	1,075,051	4,872,804
Agribusiness	2,178,074	1,852,642	4,820	—	2,182,894	1,852,642
Rural infrastructure	1,124,638	—	—	—	1,124,638	—
Financing leases	63,200	25,577	—	—	63,200	25,577
Other	89,950	—	—	—	89,950	—
<b>Total</b>	<b>\$ 5,361,980</b>	<b>\$ 9,387,880</b>	<b>\$ 5,474</b>	<b>\$ —</b>	<b>\$ 5,367,454</b>	<b>\$ 9,387,880</b>

	<i>Farm Credit institutions</i>		<i>Non- Farm Credit institutions</i>		<i>Total</i>	
	<i>Participations purchased</i>	<i>Participations sold</i>	<i>Participations purchased</i>	<i>Participations sold</i>	<i>Participations purchased</i>	<i>Participations sold</i>
<i>December 31, 2022</i>						
Real estate mortgage	\$ 614,987	\$ 665,027	\$ —	\$ —	\$ 614,987	\$ 665,027
Production and intermediate-term	836,793	4,250,106	2	—	836,795	4,250,106
Agribusiness	1,240,174	1,093,925	2,375	—	1,242,549	1,093,925
Rural infrastructure	564,667	—	—	—	564,667	—
Financing leases	64,464	—	—	—	64,464	—
Other	40,834	—	—	—	40,834	—
<b>Total</b>	<b>\$ 3,361,919</b>	<b>\$ 6,009,058</b>	<b>\$ 2,377</b>	<b>\$ —</b>	<b>\$ 3,364,296</b>	<b>\$ 6,009,058</b>

### 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 the retail lending activities through an analysis of the credit risk profile of an individual borrower using its own set of underwriting standards and lending policies, approved by its board of directors, which provides direction to its loan officers. The retail credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, financial position and collateral, which includes an analysis of credit scores for smaller loans. Repayment capacity focuses on the borrower's ability to repay the loan based on cash flows from operations or other sources of income, including off-farm income. Real estate mortgage loans must be secured by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value is generally lower than the statutory maximum percentage. Loans other than real estate mortgage may be made on a secured or unsecured basis.

AgWest uses a two-dimensional loan risk rating model based on an 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 and a separate scale addressing loss given default. Probability of default is the probability that a borrower will experience a default during the life of the loan. The loss given default is management's estimate as to the anticipated principal loss on a specific loan assuming default occurs during the remaining life of the loan. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower or the loan is classified as nonaccrual. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses and risks in a particular relationship.

Each of the probability of default categories carries a distinct percentage of default probability. The probability of default rate between one and nine of the acceptable categories is very narrow and would reflect almost no default to a minimal default percentage. The probability of default rate grows more rapidly as a loan moves from acceptable to other assets

especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain. These categories are defined as follows:

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

<i>March 31, 2023</i>	<i>Acceptable</i>	<i>OAEM</i>	<i>Substandard/ doubtful</i>	<i>Total</i>
Real estate mortgage	94.6%	2.8%	2.6%	<b>100.0%</b>
Production and intermediate-term	90.4%	4.3%	5.3%	<b>100.0%</b>
Agribusiness	95.8%	3.1%	1.1%	<b>100.0%</b>
Rural infrastructure	99.5%	0.3%	0.2%	<b>100.0%</b>
Rural residential real estate	97.3%	0.9%	1.8%	<b>100.0%</b>
Financing leases	84.1%	12.0%	3.9%	<b>100.0%</b>
Other	100.0%	0.0%	0.0%	<b>100.0%</b>
<b>Total</b>	<b>94.1%</b>	<b>3.1%</b>	<b>2.8%</b>	<b>100.0%</b>

*Excludes accrued interest receivable.*

<i>December 31, 2022</i>	<i>Acceptable</i>	<i>OAEM</i>	<i>Substandard/ doubtful</i>	<i>Total</i>
Real estate mortgage	97.0%	1.5%	1.5%	<b>100.0%</b>
Production and intermediate-term	94.2%	2.6%	3.2%	<b>100.0%</b>
Agribusiness	96.4%	3.0%	0.6%	<b>100.0%</b>
Rural infrastructure	99.6%	0.0%	0.4%	<b>100.0%</b>
Rural residential real estate	97.4%	0.9%	1.7%	<b>100.0%</b>
Financing leases	96.9%	0.5%	2.6%	<b>100.0%</b>
Other	100.0%	0.0%	0.0%	<b>100.0%</b>
<b>Total</b>	<b>96.3%</b>	<b>2.0%</b>	<b>1.7%</b>	<b>100.0%</b>

*Includes accrued interest receivable.*

At March 31, 2023, nonperforming assets consisted of nonaccrual loans, net of business combination discounts, and other property owned are presented in the following table, including related credit quality statistics:

*March 31, 2023*

<b>Nonaccrual loans:</b>		
Real estate mortgage	\$	35,007
Production and intermediate-term		38,628
Agribusiness		12,327
Rural infrastructure		2,157
Rural residential real estate		1,562
<b>Total nonaccrual loans</b>	<b>\$</b>	<b>89,681</b>
Total other property owned, net		12,384
<b>Total nonperforming assets</b>	<b>\$</b>	<b>102,065</b>
Nonaccrual loans as a percentage of total loans		<b>0.3 %</b>
Nonperforming assets as a percentage of total loans and other property owned		<b>0.4 %</b>
Nonperforming assets as a percentage of members' equity		<b>1.9 %</b>

At December 31, 2022, nonperforming assets consisted of nonaccrual loans, restructured accrual loans, accrual loans 90 days or more past due and other property owned and are presented in the following table, including related credit quality statistics:

*December 31, 2022*

<b>Nonaccrual loans:</b>		
Real estate mortgage	\$	17,547
Production and intermediate-term		25,838
Agribusiness		145
Rural infrastructure		2,157
Rural residential real estate		1,045
<b>Total nonaccrual loans</b>	<b>\$</b>	<b>46,732</b>
<b>Restructured accrual loans:</b>		
Real estate mortgage	\$	729
Production and intermediate-term		589
Rural residential real estate		725
<b>Total restructured accrual loans</b>	<b>\$</b>	<b>2,043</b>
<b>Accrual loans 90 days or more past due:</b>		
Real estate mortgage	\$	348
Production and intermediate-term		276
Rural residential real estate		178
<b>Total accrual loans 90 days or more past due</b>	<b>\$</b>	<b>802</b>
<b>Total impaired loans</b>	<b>\$</b>	<b>49,577</b>
<b>Other property owned, net</b>		<b>—</b>
<b>Total nonperforming assets</b>	<b>\$</b>	<b>49,577</b>
Nonaccrual loans as a percentage of total loans		<b>0.3 %</b>
Nonperforming assets as a percentage of total loans and other property owned		<b>0.3 %</b>
Nonperforming assets as a percentage of members' equity		<b>1.6 %</b>

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 during the period:

March 31, 2023	Amortized cost with allowance	Amortized cost without allowance	Total amortized cost	Interest income recognized for the three months ended March 31, 2023
<b>Nonaccrual Loans</b>				
Real estate mortgage	\$ 10,549	\$ 24,458	\$ 35,007	\$ 1,490
Production and intermediate-term	32,317	6,311	38,628	1,101
Agribusiness	12,189	138	12,327	589
Rural infrastructure	2,157	—	2,157	—
Rural residential real estate	—	1,562	1,562	21
<b>Total nonaccrual loans</b>	<b>\$ 57,212</b>	<b>\$ 32,469</b>	<b>\$ 89,681</b>	<b>\$ 3,201</b>

As of December 31, 2022, additional impaired loan information, including related accrued interest where applicable, is as follows:

December 31, 2022	Recorded investment *	Unpaid principal balance **	Related allowance	Average impaired loans	Interest income recognized on impaired loans
<b>Impaired loans with a related allowance for loan losses:</b>					
Real estate mortgage	\$ —	\$ —	\$ —	\$ 3,267	\$ —
Production and intermediate-term	15,983	16,452	4,285	5,055	—
Agribusiness	—	—	—	103	—
Rural infrastructure	2,157	2,157	432	7,129	—
Rural residential real estate	—	—	—	312	—
Other	—	—	—	—	—
<b>Total impaired loans with a related allowance</b>	<b>\$ 18,140</b>	<b>\$ 18,609</b>	<b>\$ 4,717</b>	<b>\$ 15,866</b>	<b>\$ —</b>
<b>Impaired loans with no related allowance for loan losses:</b>					
Real estate mortgage	\$ 18,624	\$ 20,606	\$ —	\$ 18,089	\$ 941
Production and intermediate-term	10,720	14,851	—	13,849	916
Agribusiness	145	144	—	138	53
Rural infrastructure	—	—	—	708	—
Rural residential real estate	1,948	1,948	—	1,615	240
Other	—	—	—	21	5
<b>Total impaired loans with no related allowance</b>	<b>\$ 31,437</b>	<b>\$ 37,549</b>	<b>\$ —</b>	<b>\$ 34,420</b>	<b>\$ 2,155</b>
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 18,624	\$ 20,606	\$ —	\$ 21,356	\$ 941
Production and intermediate-term	26,703	31,303	4,285	18,904	916
Agribusiness	145	144	—	241	53
Rural infrastructure	2,157	2,157	432	7,837	—
Rural residential real estate	1,948	1,948	—	1,927	240
Other	—	—	—	21	5
<b>Total impaired loans</b>	<b>\$ 49,577</b>	<b>\$ 56,158</b>	<b>\$ 4,717</b>	<b>\$ 50,286</b>	<b>\$ 2,155</b>

\*The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges and acquisition costs and may also reflect a previous direct write-down on the investment. The recorded investment may be less than the unpaid principal balance as payments on non-cash basis nonaccrual loans reduce the recorded investment.

\*\*Unpaid principal balance represents the recorded principal balance of the loan.

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

<i>March 31, 2023</i>	<i>Current loans</i>	<i>30-89 days past due</i>	<i>90+ days past due</i>	<i>Total past due</i>	<i>Total</i>	<i>Recorded investment 90+ days and accruing interest</i>
Real estate mortgage	\$ 13,692,246	\$ 18,169	\$ 50,654	\$ 68,823	\$ 13,761,069	\$ 30,546
Production and intermediate-term	5,786,235	42,763	71,326	114,089	5,900,324	42,527
Agribusiness	5,118,107	7,493	3,327	10,820	5,128,927	3,327
Rural infrastructure	1,249,964	—	—	—	1,249,964	—
Rural residential real estate	260,213	1,274	530	1,804	262,017	—
Financing leases	243,392	249	—	249	243,641	—
Other	92,425	—	—	—	92,425	—
<b>Total</b>	<b>\$ 26,442,582</b>	<b>\$ 69,948</b>	<b>\$ 125,837</b>	<b>\$ 195,785</b>	<b>\$ 26,638,367</b>	<b>\$ 76,400</b>

As of December 31, 2022, the aging analysis of past due loans reported was as follows:

<i>December 31, 2022</i>	<i>Current loans</i>	<i>30-89 days past due</i>	<i>90+ days past due</i>	<i>Total past due</i>	<i>Total</i>	<i>Recorded investment 90+ days and accruing interest *</i>
Real estate mortgage	\$ 7,175,560	\$ 12,669	\$ 11,672	\$ 24,341	\$ 7,199,901	\$ 348
Production and intermediate-term	3,510,744	5,025	24,905	29,930	3,540,674	276
Agribusiness	2,768,698	2,932	—	2,932	2,771,630	—
Rural infrastructure	566,049	—	—	—	566,049	—
Rural residential real estate	281,909	2,336	178	2,514	284,423	178
Financing leases	64,769	24	—	24	64,793	—
Other	41,594	—	—	—	41,594	—
<b>Total</b>	<b>\$ 14,409,323</b>	<b>\$ 22,986</b>	<b>\$ 36,755</b>	<b>\$ 59,741</b>	<b>\$ 14,469,064</b>	<b>\$ 802</b>

\*The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

### 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 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 CECL accounting guidance as described in Note 1. The ACL for PCD loans acquired in the merger was established through an increase in the acquired loan balance as discussed in Note 1 and there was no corresponding increase to the provision for credit losses. The initial ACL for non-PCD loans acquired in the merger was established through a corresponding increase to the provision for credit losses.

The impact to provision from the merger as well as the ACL activity for loans and the reserve for unfunded commitments is summarized in the following tables:

	<i>Real estate mortgage</i>	<i>Production and intermediate-term</i>	<i>Agribusiness</i>	<i>infrastructure</i>	<i>Rural residential real estate</i>	<i>Financing leases</i>	<i>Other</i>	<i>Total</i>
<b>Allowance for loan losses:</b>								
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
Impact of merger on provisions for non-PCD loans	16,509	7,801	13,092	1,128	1	3,767	14	42,312
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 credit losses (credit loss reversal)	608	963	1,869	287	(68)	(117)	(2)	3,540
<b>Balance at March 31, 2023</b>	<b>\$ 57,399</b>	<b>\$ 34,926</b>	<b>\$ 29,425</b>	<b>\$ 3,689</b>	<b>\$ 1,085</b>	<b>\$ 3,933</b>	<b>\$ 43</b>	<b>\$130,500</b>
<b>Reserve for Unfunded Commitments</b>								
Balance at December 31, 2022	\$ 494	\$ 8,094	\$ 7,349	\$ 909	\$ 1	\$ 102	\$ 51	\$ 17,000
Impact of CECL adoption	476	(5,368)	(4,496)	(521)	—	(102)	11	(10,000)
Balance at January 1, 2023	\$ 970	\$ 2,726	\$ 2,853	\$ 388	\$ 1	\$ —	\$ 62	\$ 7,000
Impact of merger on provisions for unfunded lending commitments	1,967	4,185	5,096	153	—	—	9	11,410
Provision (reversal) for unfunded lending commitments	101	(74)	(1,391)	(46)	1	—	(1)	(1,410)
<b>Balance at March 31, 2023</b>	<b>\$ 3,038</b>	<b>\$ 6,837</b>	<b>\$ 6,558</b>	<b>\$ 495</b>	<b>\$ 2</b>	<b>\$ —</b>	<b>\$ 70</b>	<b>\$ 17,000</b>
<b>Total allowance for credit losses at March 31, 2023</b>	<b>\$ 60,437</b>	<b>\$ 41,763</b>	<b>\$ 35,983</b>	<b>\$ 4,184</b>	<b>\$ 1,087</b>	<b>\$ 3,933</b>	<b>\$ 113</b>	<b>\$147,500</b>

	<i>Real estate mortgage</i>	<i>Production and intermediate-term</i>	<i>Agribusiness</i>	<i>infrastructure</i>	<i>Rural residential real estate</i>	<i>Financing leases</i>	<i>Other</i>	<i>Total</i>
<b>Allowance for loan losses*:</b>								
Balance at December 31, 2021	\$ 18,566	\$ 21,940	\$ 11,987	\$ 4,107	\$ 1,333	\$ 1,935	\$ 132	\$ 60,000
Charge-offs	(1)	(71)	—	—	—	—	—	(72)
Recoveries	2	40	—	—	—	—	—	42
Provision for credit losses (credit loss reversal)	1,447	(1,199)	4,083	254	(51)	(9)	5	4,530
<b>Balance at March 31, 2022</b>	<b>\$ 20,014</b>	<b>\$ 20,710</b>	<b>\$ 16,070</b>	<b>\$ 4,361</b>	<b>\$ 1,282</b>	<b>\$ 1,926</b>	<b>\$ 137</b>	<b>\$ 64,500</b>
<b>Reserve for Unfunded Commitments</b>								
Balance at Balance at December 31, 2021	\$ 809	\$ 8,186	\$ 6,004	\$ 1,337	\$ 2	\$ 20	\$ 142	\$ 16,500
Provision (reversal) for unfunded lending commitments	2	996	(1,177)	(326)	(1)	—	6	(500)
<b>Balance at March 31, 2022</b>	<b>\$ 811</b>	<b>\$ 9,182</b>	<b>\$ 4,827</b>	<b>\$ 1,011</b>	<b>\$ 1</b>	<b>\$ 20</b>	<b>\$ 148</b>	<b>\$ 16,000</b>
<b>Total allowance for credit losses at March 31, 2022</b>	<b>\$ 20,825</b>	<b>\$ 29,892</b>	<b>\$ 20,897</b>	<b>\$ 5,372</b>	<b>\$ 1,283</b>	<b>\$ 1,946</b>	<b>\$ 285</b>	<b>\$ 80,500</b>

\*For periods prior to January 1, 2023, the allowance for loan losses was based on probable losses inherent in the portfolio.

The carrying amount of the PCD loans acquired by AgWest was as follows:

	<i>January 1, 2023</i>
Purchase price of loans at acquisition	\$ 410,309
Allowance for credit losses at acquisition	18,578
Non-credit business combination discount at acquisition	41,643
<b>Carrying value of acquired loans at acquisition</b>	<b>\$ 470,530</b>

#### Loan Modifications to Borrowers Experiencing Financial Difficulty

Upon the adoption of the guidance, Financial Instruments-Credits Losses, Troubled Debt Restructurings and Vintage Disclosure, creditors are required to disclose specific modifications with borrowers that are experiencing financial difficulty. The following table shows the amortized cost basis at the end of the respective reporting period for loan modifications granted to borrowers experiencing financial difficulty, disaggregated by loan type and type of modification granted:

	<i>Term or payment extension</i>	
	<i>March 31, 2023</i>	<i>Percent of total loans</i>
Real estate mortgage	\$ 38,509	0.3%
Production and intermediate-term	14,506	0.2%
<b>Total</b>	<b>\$ 53,015</b>	<b>0.2%</b>

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty as of the three months ended March 31, 2023 was \$0.9 million.

The financial impacts of the modifications made to borrowers experiencing financial difficulty during the three months ended March 31, 2023 are a weighted-average payment deferral or extension of 425 days for real estate mortgage loans and a weighted-average payment deferral or extension of 417 days for production and intermediate-term loans.



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

	<i>Payment status of loans modified in the past 12 months</i>		
	<i>Current</i>	<i>30-89 days past due</i>	<i>90 days or more past due</i>
Real estate mortgage	\$ 38,509	\$ —	\$ —
Production and intermediate-term	14,506	—	—
<b>Total</b>	<b>\$ 53,015</b>	<b>\$ —</b>	<b>\$ —</b>

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

### **Troubled Debt Restructurings**

The following tables provide information on outstanding loans restructured in troubled debt restructurings, including accrued interest:

<i>December 31, 2022</i>	<i>Loans modified as TDRs</i>	<i>TDRs in nonaccrual status</i>
Real estate mortgage	\$ 11,413	\$ 10,684
Production and intermediate-term	10,228	9,639
Rural infrastructure	2,157	2,157
Rural residential real estate	725	—
<b>Total</b>	<b>\$ 24,523</b>	<b>\$ 22,480</b>

## **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 the loan is made. Generally, AgWest borrowers are not currently required to make a cash investment to acquire capital stock or participation certificates; however, the obligation to pay for the capital stock or participation certificates is maintained as an interest free obligation with AgWest. These borrowers are responsible for payment of the cash investment upon demand by AgWest. Accordingly, capital stock and participation certificates receivable are included within members’ equity in the Consolidated Balance Sheets under a contra account titled ‘Less: capital stock and participation certificates receivable’. As a result of the merger on January 1, 2023, all Farm Credit West, ACA borrowers became shareholders of AgWest Farm Credit, ACA at a one-for-one exchange ratio. Certain AgWest borrowers that were previously borrowers of Farm Credit West were required to make a cash investment in capital stock or participation certificates as a condition of borrowing.

All capital stock and participation certificates are at-risk investments as described in the AgWest capitalization bylaws. AgWest retains a first lien on common stock or 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.

## Capital Regulations

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

	March 31, 2023	December 31, 2022	Regulatory minimums	Total regulatory minimums with buffer
<b>Risk-adjusted:</b>				
Common equity tier 1 ratio	15.2%	17.3%	4.5%	7.0%
Tier 1 capital ratio	15.2%	17.3%	6.0%	8.5%
Total capital ratio	15.6%	17.8%	8.0%	10.5%
Permanent capital ratio	15.3%	17.4%	7.0%	7.0%
<b>Non-risk-adjusted:</b>				
Tier 1 leverage ratio*	15.9%	18.3%	4.0%	5.0%
UREE leverage ratio	15.9%	18.3%	1.5%	1.5%

\*Must include the regulatory minimum requirement of at least 1.5 percent of UREE

See Note 8 of the 2022 Northwest FCS Annual Report to Stockholders for a complete description of these ratios.

## Accumulated Other Comprehensive (Loss) Income

The following tables present the activity in the accumulated other comprehensive (loss) income, net of tax by component:

	Pension and other benefit plans, net of tax	Unrealized (losses)/gains on investment securities	Accumulated other comprehensive (loss) income, net of tax
Balance at December 31, 2022	\$ (28,276)	\$ (37,006)	\$ (65,282)
Other comprehensive (loss) income before reclassifications	(1,061)	17,777	16,716
Amounts reclassified from accumulated other comprehensive loss	49	—	49
<b>Net current period other comprehensive income (loss)</b>	<b>\$ (1,012)</b>	<b>\$ 17,777</b>	<b>\$ 16,765</b>
<b>Balance at March 31, 2023</b>	<b>\$ (29,288)</b>	<b>\$ (19,229)</b>	<b>\$ (48,517)</b>
	Pension and other benefit plans, net of tax	Unrealized losses on investment securities	Accumulated other comprehensive (loss) income, net of tax
Balance at December 31, 2021	\$ (26,481)	\$ (3,710)	\$ (30,191)
Other comprehensive income (loss) before reclassifications	4	(16,482)	(16,478)
Amounts reclassified from accumulated other comprehensive loss	374	—	374
<b>Net current period other comprehensive income (loss)</b>	<b>\$ 378</b>	<b>\$ (16,482)</b>	<b>\$ (16,104)</b>
<b>Balance at March 31, 2022</b>	<b>\$ (26,103)</b>	<b>\$ (20,192)</b>	<b>\$ (46,295)</b>

The following table represents amounts reclassified from accumulated other comprehensive (loss) income, net of tax, to the Consolidated Statements of Income and Comprehensive Income:

For the three months ended March 31,	Location of (losses) gains recognized in Consolidated Statements of Income and Comprehensive Income	Amount reclassified from accumulated other comprehensive (loss) income	
		2023	2022
<b>Pension and other benefit plans:</b>			
Amortization of net actuarial loss	Salaries and employee benefits	\$ (476)	\$ (378)
Deferred tax	Provision for income taxes	427	4
<b>Total reclassifications</b>		<b>\$ (49)</b>	<b>\$ (374)</b>

## 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. See Note 2 of the 2022 Northwest FCS 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:

March 31, 2023	Classification in the Consolidated Balance Sheets	Fair value measurement using			
		Level 1	Level 2	Level 3	Total fair value
<b>Assets:</b>					
Investment securities	Investment securities	\$ —	\$ 1,518,803	\$ —	\$ 1,518,803
Derivative assets	Other assets	—	—	—	—
Rural Business Investment Companies (RBICs)	Other assets	—	—	18,073	18,073
<b>Total assets</b>		<b>\$ —</b>	<b>\$ 1,518,803</b>	<b>\$ 18,073</b>	<b>\$ 1,536,876</b>
<b>Liabilities:</b>					
Derivative liabilities	Other liabilities	\$ —	\$ 2,294	\$ —	\$ 2,294
<b>Total liabilities</b>		<b>\$ —</b>	<b>\$ 2,294</b>	<b>\$ —</b>	<b>\$ 2,294</b>

December 31, 2022	Classification in the Consolidated Balance Sheets	Fair value measurement using			
		Level 1	Level 2	Level 3	Total fair value
<b>Assets:</b>					
Investment securities	Investment securities	\$ —	\$ 606,343	\$ —	\$ 606,343
Derivative assets	Other assets	—	—	—	—
Rural Business Investment Companies (RBICs)	Other assets	—	—	9,167	9,167
<b>Total assets</b>		<b>\$ —</b>	<b>\$ 606,343</b>	<b>\$ 9,167</b>	<b>\$ 615,510</b>
<b>Liabilities:</b>					
Derivative liabilities	Other liabilities	\$ —	\$ 3,324	\$ —	\$ 3,324
<b>Total liabilities</b>		<b>\$ —</b>	<b>\$ 3,324</b>	<b>\$ —</b>	<b>\$ 3,324</b>

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

	<i>Fair value measurement using</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total fair value</i>
<b>Assets:</b>				
Loans				
March 31, 2023	\$ —	\$ —	\$ 47,593	\$ 47,593
December 31, 2022	\$ —	\$ —	\$ 13,546	\$ 13,546
Other property owned				
March 31, 2023	\$ —	\$ —	\$ 13,557	\$ 13,557
December 31, 2022	\$ —	\$ —	\$ —	\$ —

### **Valuation Techniques**

As more fully discussed in Note 2 of the 2022 Northwest FCS Annual Report to Stockholders, accounting guidance establishes a fair value hierarchy, which requires AgWest 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.

### **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 as their basis readily observable market parameters and are classified within the fair value Level 2 of the valuation 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 the underlying reference rate LIBOR or 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 in the Consolidated Balance Sheets.

### **Loans evaluated for Impairment**

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

### **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 2022 Northwest FCS 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 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:

	<i>Activity in the notional amounts of receive-fixed swap derivative financial instruments</i>	
December 31, 2022	\$	225,000
Additions		—
Maturities		(24,000)
<b>March 31, 2023</b>	<b>\$</b>	<b>201,000</b>
	<i>Activity in the notional amounts of receive-fixed swap derivative financial instruments</i>	
December 31, 2021	\$	140,000
Additions		—
Maturities		—
<b>March 31, 2022</b>	<b>\$</b>	<b>140,000</b>

### ***Accounting for Derivative Instruments and Hedging Activities***

AgWest records derivatives as assets or liabilities at fair value in 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.

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

	<i>Carrying amount of the hedged item</i>	
	<i>March 31, 2023</i>	<i>December 31, 2022</i>
<b>Note payable to CoBank, ACB</b>	<b>\$ 198,694</b>	<b>\$ 221,645</b>
	<i>Cumulative amount of fair value hedging adjustment included in the carrying amount of the hedged item</i>	
	<i>March 31, 2023</i>	<i>December 31, 2022</i>
<b>Note payable to CoBank, ACB</b>	<b>\$ (2,306)</b>	<b>\$ (3,355)</b>

### **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:

<i>March 31, 2023</i>	<i>Fair value of derivative financial instruments</i>	
	<i>Derivative assets (1)</i>	<i>Derivative liabilities (2)</i>
Receive-fixed swaps	\$ —	\$ 2,294
<b>Total derivatives designated as hedging instruments</b>	<b>\$ —</b>	<b>\$ 2,294</b>

(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.

<i>December 31, 2022</i>	<i>Fair value of derivative financial instruments</i>	
	<i>Derivative assets (1)</i>	<i>Derivative liabilities (2)</i>
Receive-fixed swaps	\$ —	\$ 3,324
<b>Total derivatives designated as hedging instruments</b>	<b>\$ —</b>	<b>\$ 3,324</b>

(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:

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

For the three months ended March 31, 2022	Effect of fair value hedge accounting in the Consolidated Statements of Income and Comprehensive Income	
	Interest income	Interest expense
Total amount of line items presented in Consolidated Statements of Income and Comprehensive Income	\$ 131,215	\$ (31,492)
Gain (loss) on fair value hedge relationships:		
Receive-fixed swaps:		
Recognized on derivatives	\$ —	\$ (3,582)
Recognized on hedged items	—	3,580
<b>Net expense recognized on fair value hedges</b>	<b>\$ —</b>	<b>\$ (2)</b>

### **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, 2023, the date the financial statements were issued or available to be issued, and determined there are no other items to disclose.

**Board of Directors**

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Nathan Riggers, Chair	Nezperce, Idaho
Douglas Filipponi, Vice Chair	Santa Margarita, California
Joseph Airoso	Pixley, California
Robert Amarel Jr.	Yuba City, California
Mark Cook	Willcox, Arizona
Nels DeBruycker	Choteau, Montana
Susan Doverspike	Burns, Oregon
Vicki Eggebrecht	Malta, 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 Powell	Sacramento, California
Derek Schafer	Ritzville, Washington
Brian Talley	Arroyo Grande, California
Shawn Walters	Newdale, Idaho
Andy Werkhoven	Monroe, Washington

**Operating Committee**

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